

## RISKS DISCLOSURE

### 1. Introduction

You should note that there are significant risks inherent in investing in financial instruments and markets and that those risks differ depending on the instrument and market in which investments are made. Investment in derivatives, for example, may expose you to risks which are different to those investors might expect when they invest in equities. Similarly, investment in shares issued by issuers in emerging markets (by which we mean those that have an underdeveloped infrastructure or which are less economically or politically stable as markets in well-developed countries) involves risks not typically associated with equities investment in well-developed markets. Among such risks, there is the risk of losing the entire value of an investment or (in the case of certain derivative and other transactions and provided that no negative balance protection applies by virtue of any applicable legislation) the risk of being exposed to liability over and above the initial investment.

You should understand that investments made or other positions taken in financial instruments are at your own risk.

We cannot guarantee the future performance of your account, promise any specific level of performance or promise that investment decisions, strategies or overall management of your account by us or you will be successful.

The investment decisions made are subject to various market, currency, economic, political and business risks, and will not necessarily be profitable.

In risk disclosures provided to you, we set out some specific risks and considerations in relation to financial instruments and markets of certain types. The information included in risk disclosure is not intended to constitute a comprehensive statement of all the risks to which investors might be exposed to and there may be others that exist now or which may arise in the future. This risk disclosure designed to supplement any risk disclosures set out in the Portfolio Management Rules (including for the avoidance of doubt any Schedules thereto which constitute integral part thereof) and other documents disclosing risks specific to particular investments, products or services.

All risk disclosing documents shall constitute an integral part of our basic contract with you. If you do not understand any aspect of these documents, we recommend that you consult an independent adviser and obtain a full understanding of such terms.

### 2. General information on risks associated with financial instruments and general types of risk

Financial instruments, i.e. shares, bonds, shares in mutual funds, ownership rights, depository receipts or other rights and obligations that are intended for trading on the securities market normally provide a return in the form of dividends (shares) or interest (fixed income instruments).

In addition, the price of the instrument may increase or decrease in relation to the price when the investment was made. In the description below, the word "investment" also means any negative positions (negative holdings) in the instrument. The total return is the total of the dividend/interest and price change for the instrument.

Naturally, the investor seeks a total return that is positive, i.e. yields a profit, preferably as high as possible. However, there is also a risk that the total return will be negative, i.e. that there will be a loss on the investment. The risk of loss varies between different instruments. Normally, the chance of a profit on an investment in a financial instrument is linked to the risk of loss. The longer period in which the investment is held, the greater chance of profit or risk of loss. In an investment context, the word "risk" is often used to express both the risk of loss and the chance of profit. In the description below, however, the word "risk" is used solely to designate the risk of loss.

There are various ways to reduce the risk. It is normally regarded as better not to invest in a single or only a few financial instruments but, instead, to invest in several different financial instruments. These instruments should then offer a distribution of the risks and do not concentrate together risks that can be triggered simultaneously. In conjunction with trading in financial instruments denominated in a currency other than a basic currency, there is also a currency risk.

When investing in financial instruments you may be exposed to some or all of the risks described in this section below.

- (a) **Commodity risk** means a risk that the prices of commodities may be volatile, and, for example, may fluctuate substantially if natural disasters or catastrophes, such as hurricanes, fires or earthquakes, affect the supply or production of such commodities. The prices of commodities may also fluctuate substantially if conflict or war affects the supply or production of such commodities. If any interest and/or the redemption amount payable in respect of any product is linked to the price of a commodity, any change in the price of such commodity may result in the reduction of the amount of interest and/or the redemption amount payable. The reduction in the amount payable on the redemption of an investment may result, in some cases, in you receiving a smaller sum on redemption of a product than the amount originally invested in such product.
- (b) **Credit risk** means a risk of loss as a result of the nonperformance or/and undue performance of obligations by counterparties under the contracts concluded for you.
- (c) **Currency risk** means a risk of negatively changing of securities or derivatives contracts value at your account due to changing of the currency rate of your base currency to other currencies.
- (d) **Interest rate risk** means a risk that the relative value of a security, especially a bond, will worsen due to an interest rate increase. This could impact negatively on other products. There are additional interest rate related risks in relation to floating rate instruments and fixed rate instruments; interest income on floating rate instruments cannot be anticipated. Due to varying interest income, it may not possible to determine a definite yield of floating rate instruments at the time of their purchase, so that their return on investment cannot be compared with that of investments having longer fixed interest periods. If the terms and conditions of the relevant instruments provide for frequent interest payment dates, you are exposed to the reinvestment risk if market interest rates decline.
- (e) **Issuer risk** means a risk of the issuer's insolvency, changing of credit and other ratings of the issuer, bringing suits or claims against the issuer that may result in dramatic decrease of value of the issuer's securities or failure to redeem the debt securities.
- (f) **Legal risk** means a risk due to the fact that markets are subject to ongoing and substantial regulatory changes. It is impossible to predict what statutory, administrative or exchange changes may occur in the future or what impact such changes may have on your investment results. In emerging markets there is generally less government supervision and regulation of business and industry practices, stock exchanges, OTC markets, brokers, dealers and issuers than in more established markets. In certain areas, the laws and regulations governing investments in securities and other assets may not exist or may be subject to inconsistent or arbitrary interpretation.
- (a) **Liquidity risk** means a risk of loss as the result of transactions in securities and/or derivatives due to change of market sentiment in respect of those investments. This risk may materialize when many investors effect a quick sale of securities and/or derivatives in order to close opened positions or when investment is made in unrated/non-publicly offered debt securities and unlisted equities and debentures.
- (b) **Market risk** means a risk that value of instruments depends on such factors as: prices of equities, debts and commodities; exchange, interest and other reference rates; as well as their volatilities and correlations. These factors are influenced by, among other things: political instability, government trade, fiscal and monetary programs, exchange rate policies, state of the market and industries, as well as external environment. No assurance can be given that you will not incur substantial losses because of such factors.

- (c) **Operations risk** means a risk of losses as a consequence of the mistaken or illegal actions of the employees of the organised markets or venues, custodians, registrars, clearing organisations in course of settlement of transactions in securities or derivatives.
- (d) **Price risk** means a risk of unexpected change of prices on corporate, municipal or state securities and derivatives that may result in dramatic decrease of the value of your financial instruments.
- (e) **System risk** means a risk of loss infliction to you as consequence of the negatively changing in system of financial market operation and organisation.
- (f) **Tax risk** means a risk concerning with complexity of tax laws of the different countries applicable to you. Therefore, you shall consider tax consequences of investments. It is possible that the current interpretation of tax laws or understanding of practice may change, and such changing may have retrospective effect. As an investment holder, you may receive taxable income in the form of distributions and/or capital gains on your investment. You should consult with your tax advisor in order to determine the impact of taxes on your investments.
- (g) **Technical risk** means a risk of failures arising in course of ordinary operation of trading systems and communication lines (defects and failure at the operating of equipment, IT software, power supply service etc.), that may hinder or make impossible transmission of orders or performing of the transactions in securities and/or on entering into derivative contracts and obtaining information about prices. Most open outcry and electronic trading facilities are supported by computer-based component systems for the order routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure.

### 3. Shares and share-related instruments

#### ***Shares and Companies Limited by Shares***

Shares in companies limited by shares entitle the owner to a portion of the company's share capital. If the company makes a profit, the company usually distributes dividends on the shares. Shares also entitle the holders to voting rights at the general meeting of the company, which is the highest-ranking decision making body in the company. The more shares the holder owns, the greater the portion of the capital, dividends and votes that inure to him. Voting rights may vary depending on the class of shares concerned. There are two types of companies, public and private. Only shares of public companies may be listed for trading on stock exchanges or other marketplaces.

#### ***Shares Price***

The price of a share is affected to a great extent by the company's prospects. A share is valued upwards or downwards depending primarily on the investors' analyses and assessment of the company's possibilities to make future profits. Future external developments regarding the economy, technology, legislation, competition, etc. determine the demand for the company's products or services and, consequently, are of fundamental significance regarding changes in the price of the company's shares.

Current interest rate levels can also have influence on pricing. If market interest rates increase, fixed interest financial instruments that are issued at the same time as the increase (newly issued) provide a better return. In such cases, the prices of listed shares normally fall, as well as those of already traded fixed interest instruments. The reason is that the increased return on the newly issued fixed income instruments becomes better than the return on shares, as well as on already traded fixed income instruments. In addition, share prices are negatively affected by the fact that interest payments on the company's debts increase when market interest rates increase, a factor that reduces the scope for profits in the company.

Other factors directly related to the company, e.g. changes in the company's management and organization, disruptions in production, etc., may strongly affect the company's future ability to create profits, both in the long and short-run. In the worst case, a limited company may perform so poorly that it must be declared bankrupt. The share capital, i.e. the capital invested by the shareholders, is the capital

that is applied first in order to pay the company's debts. This often results in the entire share capital being used up, which means that the shares in the company become worthless.

Prices on certain major foreign stock exchanges and other marketplaces could affect prices on others. Prices in shares in companies that belong to the industrial sector are often affected by changes in the prices of shares of other companies within the same sector.

Players on the market have different needs for investing cash (liquid funds) or obtaining liquid funds.

In addition, they often have different opinions as to how the price will develop. These factors, which also include the way in which the company is valued, contribute to there being both buyers and sellers. On the other hand, if the investors have the same opinions regarding price trends, they will either wish to buy (thereby creating buying pressure from many buyers), or they will wish to sell (thereby creating selling pressure from many sellers). Prices increase in the event of buying pressure and fall in the event of selling pressure.

Turnover, i.e. the quantity of a particular share that is bought or sold, in turn affects the share price. In the event of high turnover, the difference (the "spread") declines between the price the buyers are prepared to pay (bid price) and the price requested by the sellers (ask price). A share with a high turnover, where large amounts can be traded without affecting the price, enjoys good liquidity and, consequently, is easy to buy or sell. Companies on the stock exchange's list of most traded shares normally have high liquidity. During the day or during longer periods, different shares can exhibit different degrees of price stability (volatility), i.e. increases and declines, as well as in size of the price changes.

#### ***Various lists***

Stock exchanges and other marketplaces normally divide shares into various lists. The main criteria regarding the list on which listing will take place are the manner in which the company fulfils various requirements regarding the amount of share capital, diversification of ownership of the shares among many owners, operational history, and information regarding finances and operations. The most traded shares can also be found on a separate list. Shares on lists entailing high demands and high turnover are normally deemed to entail a lower risk than shares on other lists.

#### ***Par value, split and Reverse share split***

A share's par value is the value that each share represents of the company's share capital. The total of all shares in the company multiplied by the par value of each share constitutes the company's share capital. Occasionally, companies wish to change the par value, e.g. because the price, i.e. the market price of the share, has risen significantly. By dividing up the share into two or several shares through a split, the par value is reduced at the same time as the price of the shares is reduced. However, after a split the owners' capital remains unchanged, but is divided into a greater number of shares that have a lower par value and a lower price.

Conversely, a reverse share split can be carried out where the price has fallen dramatically. In such case, two or several shares are merged into one share. Following a reverse split, the shareholder retains the same capital, however divided into fewer shares with a higher par value and higher price.

#### ***Market Introduction, Privatization and Take-Over***

Market introduction means that shares in a company are introduced on the stock market, i.e. become listed on a stock exchange or other marketplace. The public is then invited to subscribe for (purchase) shares in the company. Most often, an existing company that was not previously listed on a stock exchange is involved, in which the owners have decided to increase the number of shareholders and facilitate trading in the company's shares. Where a State-owned company is introduced on the market, this is called privatization.

A take-over or buyout normally involves an investor or investors inviting the shareholders in a company to sell their shares subject to certain conditions. If the buyer obtains 90% or more of the share capital and votes in the target company, the buyer can request compulsory purchase of the remaining shares from those shareholders who have not accepted the take-over offer. These shareholders are then entitled to payment which is determined through an arbitration proceeding.

### **Share Issues**

If a company wishes to expand its operations, additional share capital is often required. The company raises additional capital by issuing new shares through a new issue. The existing shareholders often receive subscription rights entailing a pre-emptive right to subscribe for shares in a new issue. The number of shares that may be subscribed for is established in relation to the number of shares previously held by the shareholder. The subscriber must pay a certain price (issue price), which is often lower than the market price, for the newly issued shares. Immediately after the subscription rights – which normally have a certain market value – are detached from the shares, the price of the shares normally declines but, at the same time, shareholders who have subscribed have a larger number of shares. During the subscription period, which often lasts for several weeks, those shareholders who do not subscribe may sell their subscription rights on the marketplace on which the shares are listed. Upon the expiry of the subscription period, the subscription rights lapse and thus become useless and worthless.

If the assets or the reserve funds in a company limited by shares have greatly increased in value, the company can transfer part of the value to its share capital through what is commonly referred to as a bonus issue. In relation to bonus issues, consideration is given to the number of shares already held by each shareholder. The number of new shares that inure through the bonus issue is established in proportion to the number of shares previously held. Through the bonus issue, the shareholder receives more shares but the owner's portion of the company's increased share capital remains unchanged. The price of the shares declines in conjunction with a bonus issue but, through the increase in the number of shares, the shareholder retains an unchanged market value for his or her invested capital. Another method of carrying out a bonus issue is for the company to re-denominate the shares. Following a write-up, the shareholders have an unchanged number of shares and market value for their invested capital.

A company limited by shares can also carry out a directed new issue, which is carried out as a new issue but directed solely to a limited group of investors. Companies limited by shares can also carry out noncash issues of new shares in order to acquire other companies, business operations, or assets other than cash. In conjunction with both directed issues and noncash issues, dilution takes place of an existing shareholder's portion of the voting capital and share capital in the company, but the number of held shares and the market value of the invested capital is not affected.

Investments in shares always entail some degree of risk. Be aware that:

- some investments in shares cannot easily be sold or converted to cash. Check to see if there is any penalty or charge if you must sell an investment quickly;
- investments in stock issued by a company with little or no operating history or published information involves greater risk than investing in a public company with an operating history and extensive public information.

There are additional risks if that is a low priced shares with a limited trading market, e.g., so-called penny shares.

Shares are not federally insured against a loss in market value.

Shares you own may be subject to tender offers, mergers, reorganizations, or third-party actions that can affect the value of your ownership interest. Careful attention shall be paid to public announcements and information about such transactions. They involve complex investment decisions.

The greatest risk in buying shares of stock is having the value of the stock fall to zero. On the other hand, the risk of selling shares short can be substantial. "Short selling" means selling stock that the seller does not own, or any sale that is completed by the delivery of a security borrowed by the seller. Short selling is a legitimate trading strategy, but assumes that the seller will be able to buy the stock at a more favorable price than the price at which they sold short. If this is not the case, then the seller will be liable for the increase in price of the shorted stock, which could be substantial.

### **Share-related instruments**

Share-Index Bonds, Depository Receipts, Convertible Debentures, Options, and Warrants, Share-index bonds, depository receipts, convertible debentures, share- and share-index options, and warrants are closely connected to shares.

Share-index bonds are bonds the profit on which normally depends on a share index. If the index develops positively, so does the return. In the event of a decline in the index, there may be no return. However, the face value of the bond is always repaid on the maturity date.

Depository receipts are a substitute for foreign shares and entitle the holder to the same rights as a holding of the actual shares.

Convertible debentures are fixed income securities which may be exchanged for shares within a certain period of time. The return on the convertible debentures, i.e. the coupon interest, is normally higher than the dividend on the shares received in exchange. The price of convertible debentures follows the share price but is expressed as a percentage of the face value of the convertible debenture.

There are various kinds of share options. Call options are the options entitling the holder to purchase already issued shares at a predetermined price within a specific period of time. And vice versa, put options are those entitling the holder to sell shares at a predetermined price within a specific period of time. There is an issued option corresponding to each acquired option. The risk for the party that acquires an option is that it will decline in value or become worthless on the expiration date; in the latter case, the premium paid upon purchase of the option is consumed in its entirety. Unless special measures are taken, the issuer of an option runs a risk which may be unlimited in scope.

The most extensive trading in share options takes place on the stock exchange. On the exchange, trading also takes place in share-index options. These index options yield a profit or loss directly in cash (cash settlement) related to the changes in an underlying index.

The price of options (premium price) normally follows the price of the corresponding underlying shares or index.

Certain call and put options with longer terms until expiration, which are normally referred to as warrants, are traded on the stock exchange. Warrants may be used in order to purchase or sell underlying shares or, in other cases, provide a cash return if a profit arises in relation to the price of the underlying share.

Subscription warrants for shares may be exercised within a certain period of time in order to subscribe for corresponding newly issued shares.

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### ***Shares in equity funds***

An equity fund invests all or most of the capital paid in by the fund holders in shares. There are also mixed funds that invest in both equities and fixed income instruments. Fund shareholders receive a number of shares in the fund equal to the portion of the total capital of the fund represented by the invested capital. The shares may be bought or sold at securities institutions that sell shares in the fund. The current value of the shares is calculated daily by the fund company and is based on changes in the prices of the financial instruments held by the fund.

One of the ideas underlying an equity fund is that it invests in a large number of different shares and other financial instruments, which means that the risk for the fund's shareholders declines compared with the risks faced by shareholders who invest in a single share or a small number of shares. In addition, the fund's shareholders don't have to deal with choosing, buying, selling and monitoring shares and other administrative work associated therewith.

## **4. Fixed income instruments**

A fixed income financial instrument represents a claim against the issuer of the instrument. Return is normally provided in the form of interest. There are various types of fixed income instruments depending on the issuer that has issued the instrument, the security provided for the loan by the issuer, the term until the maturity date, and the type of payment of interest.

The interest on a bond (the coupon) is normally paid annually. On certain types of bonds, interest is paid in a lump sum only upon the maturity date of the bond. These types of bonds are referred to as zero coupon bonds.

Another type of interest payment is that, instead of paying interest, the instrument is sold at discount (discount paper). Upon sale, the price of the instrument is calculated by discounting the bond amount, including calculated interest, to current value. The current value or the price is lower than the amount received upon maturity (the face value). Certificates of deposit and treasury bills are examples of discount paper.

Another form of fixed income bond consists of the State's premium bonds, in which interest on the bonds is distributed by lottery among the holders of premium bonds. There are also fixed income instruments and other forms of saving in which the interest is protected against inflation and the investment thus yields a fixed real interest.

Trading bonds may not be suitable for all investors. Although bonds are often thought to be conservative investments, there are numerous risks involved in bond trading. If you are uncomfortable with any of the risks involved, you should not choose investments in bonds.

There is a credit risk involved with trading bonds.

When you choose investments in a corporate bond, you are lending money to a company. There is always the risk that the issuer will go bankrupt and will be unable to redeem these instruments. In this context, bonds for which satisfactory security has been provided for redemption are less risky than fixed income instruments without security. However, in purely general terms, it can be stated that the risk of loss associated with fixed income instruments may be deemed lower than for shares. Credit risk is figured into the pricing of bonds.

There is a prepayment risk involved.

Prepayment risk involves the scenario where an issuer "calls" a bond. If this happens, your investment will be paid back early. Certain bonds are callable and others are not, and this information is detailed in the prospectus. If a bond is callable, the prospectus will detail a "yield-to-call" figure. Corporations may call their bonds when interest rates fall below current bond rates. A "put" provision allows a bondholder to redeem a bond at par value before it matures. Investors may do this when interest rates are rising and they can get higher rates elsewhere.

The issuer will assign specific dates to take advantage of a put provision. Prepayment risk is figured into the pricing of bonds.

Another form of fixed income bond consists of the State's premium bonds, in which interest on the bonds is distributed by lottery among the holders of premium bonds. There are also fixed income instruments and other forms of saving in which the interest is protected against inflation and the investment thus yields a fixed real interest.

There is a significant inflation risk when trading bonds.

Inflation risk is the risk that the rate of the yield to call or maturity of the bond will not provide a positive return over the rate of inflation for the period of the investment. In other words, if the rate of inflation for the period of an investment is six percent and the yield to maturity of a bond is four percent, you will receive more money in interest and principal than you invested, but the value of that money returned is actually less than what was originally invested in the bond. As the inflation rate rises, so do interest rates. Although the yield on the bond increases, the price of the actual bond decreases.

There is an interest rate risk associated with bonds.

Market interest rates are established every day both for instruments with short terms until maturity (less than one year), e.g. treasury bills, and for instruments with longer terms until maturity, e.g. bonds. This takes place on the money market and bond market. Market interest rates are affected by analyses and assessments conducted by the Central Banks of different Countries and other major institutional market players regarding short-term and long-term trends with respect to a number of economic factors such as inflation, state of the economy, and interest rate changes in countries.

The financial instruments traded on the money market and bond market (treasury bills, treasury bonds, and bonds issued by home loan institutions) are often traded in large amounts.

If market interest rates increase, the price of already issued fixed income financial instruments will fall if they provide fixed interest, since new bonds are issued bearing rates of interest that follow current market rates of interest and thereby provide a higher rate of interest than the already issued instruments. And vice versa, the price of already issued instruments increases when market interest rates decline. Bonds issued by the State and municipalities are deemed to be risk-free with respect to redemption. Issuers other than the State and municipalities must, in conjunction with the issuance of bonds, provide security in the form of other financial instruments or other property (security in the form of property or real security).

There are also other fixed income instruments with security inferior to bonds, e.g. corporate bonds and subordinated debentures. These instruments thus entail a higher risk if the issuer encounters difficulties in redeeming the instrument.

## 5. Derivatives

A derivative is a financial instrument:

- (a) whose value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices, a credit rating, or similar variable (the underlying);
- (b) that requires no initial net investment or little initial net investment relative to other types of contracts that have similar responses to changes in market conditions; and
- (c) that is settled at a future date.

Common types of derivatives are futures, options, swaps and forwards.

While some off-exchange markets are highly liquid, transactions in off-exchange derivatives may involve greater risk than investing in on-exchange derivatives (including structured products) because there is no exchange market on which to close out an open position. It may be impossible to liquidate the existing position, to assess the value of the position arising from an OTC transaction.

### ***Futures***

A futures contract is a legally binding agreement between two parties to purchase or sell in the future a specific quantity of underlying asset at a certain price. The price at which the contract trades (the "contract price") is determined by relative buying and selling interest on a regulated exchange.

Futures contracts may be settled either by physical delivery of the underlying security or settled through cash settlement.

Futures contracts can be used for speculation, hedging, and risk management. Futures contracts do not provide capital growth or income.

Transactions in futures carry a high degree of risk. As with any high risk financial instrument one should not risk any funds it/he cannot afford to lose.

Futures trading is speculative and highly volatile. Price movements for futures are influenced by, among other things, government trade, fiscal, monetary and exchange control programs and policies; weather and climate conditions; changing supply and demand relationships; national and international political and economic events; changes in interest rates; and the psychological emotions of the market place. None of these factors can be controlled by us and no assurances can be given that its advice will result in profitable trades for the Client or that the Client will not incur substantial losses.

Futures trading can be highly leveraged. The low margin deposits normally required in futures trading permit an extremely high degree of leverage. Accordingly, a relatively small price movement in a futures contract may result in immediate and substantial loss or gain to the Client. Thus any future trade may result in losses in excess of the amount invested.

Futures trading may be illiquid.

We may engage in trading foreign futures contracts. Transactions on markets located outside Cyprus may be subject to regulations, which offer, different or diminished protection.

### ***Options***



Option-call contract provides the buyer of the contract with the right, but not the obligation, to buy or sell a security prior to the expiration date.

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

The purchaser of options may offset or exercise the

options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying. If the option is on a future, the purchaser will acquire a futures position with associated liabilities for margin. If the purchased options expire worthless, you will suffer a total loss of your investment. In contemplating purchasing deep out-of-the-money options, you should be aware that the chance of such options becoming profitable ordinarily is remote.

Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. The seller will also be exposed to the risk of the purchaser exercising the option and the seller being obligated to either settle the option in cash or to acquire or deliver the underlying interest. If the option is on a future, the seller will acquire a position in a future with associated liabilities for margin. If the option is "covered" by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited.

Certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

### ***Forwards***

Forward is a non-standardized contract between two parties to buy or sell an asset at a specified future time at a price agreed today.

Forward contracts are very similar to futures contracts, except they are not exchange-traded, or defined on standardized assets.

Forwards are not listed on an exchange as they are OTC products. Persons who need to close position on forwards prior their maturity are likely to receive less than the amount of their initial investment. Therefore, forwards with longer maturities may be subject to greater liquidity risk than forwards with a shorter maturity period.

### ***Structured Products***

Structured product is generally a pre-packaged investment strategy based on derivatives, such as a single security, a basket of securities, options, indices, commodities etc. The risks associated with many structured products, especially those products that present risks of loss of principal due to market movements, are similar to those risks involved with options.

Structured products shall not pay interest, so they are not appropriate for investors looking for current income. Because the return paid on structured products at maturity is tied to the performance of the underlying asset and will be variable, it is possible that the income may be zero or significantly less than what Client could have earned on an ordinary, interest-bearing debt security. The return on structured products, if any, is subject to market and/or other risks related to its underlying asset.

Some structured products impose limits and barriers that affect their return of profitability. With barriers, a structured product may not offer any return if a barrier is broken or breached during the term of the structured product. Conversely, some structured products may not offer any profit unless certain thresholds are achieved.

Some structured products impose maximum income limits so even if the underlying assets generate a return greater than the stated limit, Clients do not realize that excess return.

Past performance of an underlying asset class is not indicative of the profit and loss potential on any particular structured product.

Structured products also may have participation rates that describe a Client's share in the return of the underlying assets. Participation rates below 100% mean that the Client will realize a return that is less than the return on the underlying assets.

Structured products are OTC products so all risks connected with OTC (please see below) are applicable to the structured products.

Structured products are unsecured debt obligations of the issuer. As a result, they are subject to the risk of default.

***Suspension or restriction of trading and pricing relationships (futures and options, structured products)***

Market conditions (e.g. illiquidity) and/or the operation of the rules of certain markets (e.g. the suspension of trading in any contract or contract month because of price limits or "circuit breakers") may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. If options are sold, structured products this may increase the risk of loss.

Further, normal pricing relationships between the underlying interest and the future, and the underlying interest and the option may not exist. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not. The absence of an underlying reference price may make it difficult to judge "fair" value.

## 6. Securities lending

There are risks inherent in securities lending, including the risk of failure of the other party to comply with the terms of the agreement as regards payments to be made or securities to be delivered to the other party. Such failure can result in the inability of the lender to return the securities deposited and the possible loss of corporate benefits accruing thereon.

In addition to the above, the risks inherent in securities lending include the following:

(a) the lender's rights, including any proprietary rights that it may have had, in loaned securities will be replaced by an unsecured contractual claim to the borrower for delivery of securities equivalent to the loaned securities and in the event of insolvency or default of the borrower the lender's claim against the borrower will be subject to the terms of applicable law and contract and, accordingly, the lender may not receive equivalent securities or recover the full value of the loaned securities;

(b) as a result of the lender ceasing to have a proprietary interest in the loaned securities the lender will not be entitled to exercise any voting rights attached to the loaned securities, and even if the borrower has agreed to exercise such voting rights in accordance with your instructions, in the event that the borrower does not hold and is not able to readily obtain equivalent securities, it may not be able to comply with the lender's instructions;

(c) in the event that the borrower is not able to readily obtain equivalent securities to deliver to the lender at the time required, the lender may be unable to fulfil your settlement obligations under a hedging or other transaction the lender has entered into in relation to those equivalent securities; a counterparty or other person may exercise a right to buy-in the relevant securities; and the lender may be unable to exercise rights or take other action in relation to those equivalent securities;

(d) in the event that a competent authority acting as a competent resolution authority exercises its powers under any relevant resolution regime in relation to the borrower, any rights the lender may have to take any action against the borrower, such as to terminate the agreement, may be subject to a stay by the relevant resolution authority and the lender's claim for delivery of equivalent securities may be reduced (in part or in full) or converted into equity or a transfer of assets or liabilities may result in the lender's claim on the borrower, or its claim on the lender, being transferred to different entities, although the lender may be protected to the extent that the exercise of resolution powers is restricted by the availability of set-off or netting rights;

(e) where the lender receives or is credited with a payment by reference to dividend, coupon or other income payable in relation to any loaned securities, the resulting tax treatment may differ from the

lender's initial tax treatment in respect of the original dividend, coupon or other payment in relation to those loaned securities.

## 7. Repurchase transactions

A repurchase transaction means a transaction in which the seller agrees to sell to the buyer securities (known as purchased securities) against the payment of the agreed price (known as purchase price) by the buyer to the seller, with a simultaneous agreement by the buyer to sell to the seller securities equivalent to the originally sold securities (equivalent securities), at a certain date or on demand against the payment of the agreed price (known as repurchase price) by the seller to the buyer.

Where securities are sold under a repo, the full ownership of the purchased securities will be transferred to the buyer. The seller will therefore, be exposed to the risk of failure by the buyer to comply with the terms of the transaction in part or at all. Such failure can result, inter alia, in the inability to return to the seller equivalent securities and the possible loss of corporate benefits accruing thereon. Where securities are bought under a repo, the buyer will also become exposed to the risk of failure by the seller to pay to the buyer the repurchase price.

In addition to the above, the risks inherent in repurchase transactions include the following:

- (a) the seller's rights, including any proprietary rights that the seller may have had, in securities sold will be replaced by an unsecured contractual claim against the buyer for delivery of equivalent securities;
- (b) in the event of insolvency or default by the buyer the seller's claim against the buyer for delivery of equivalent securities will not be secured and will be subject to the terms of applicable contract and law and, accordingly, the seller may not receive such equivalent securities or recover the full value of the purchased securities;
- (c) as a result of the seller ceasing to have a proprietary interest in the securities sold, even if the buyer has agreed to exercise voting rights in accordance with the seller's instructions, in the event that the buyer does not hold and is not able to readily obtain equivalent securities, the buyer may not be able to comply with the seller's instructions;
- (d) in the event that the buyer is not able to readily obtain equivalent securities to deliver to the seller at the time required, the seller may be unable to fulfil settlement obligations under a hedging or other transaction it has entered into in relation to those equivalent securities; and/or a counterparty or other person may exercise a right to buy-in the relevant securities; and/or the seller may be unable to exercise rights or take other action in relation to those equivalent securities;
- (e) in the event that a competent resolution authority exercises its powers under any relevant resolution regime in relation to the other party to a repo any rights the first party may have to take any action against the other party, such as to terminate our agreement, may be subject to a stay by the relevant resolution authority and claim of the first party for delivery of equivalent securities or payment of the repurchase price may be reduced (in part or in full) or converted into equity or a transfer of assets or liabilities may result in the first party's claim on the other party, or the other party's claim on to the first party, being transferred to different entities;
- (f) where you receive or are credited with a payment by reference to dividend, coupon or other income payable in relation to any purchased securities, your tax treatment may differ from your tax treatment in respect of the original dividend, coupon or other payment in relation to those purchased securities;
- (g) if the market value of the securities the seller has sold declines, the seller may be required to deposit more money at short notice. In the extreme event that the purchased securities sold decline to zero, the seller would need to deposit the full initial value of the purchased securities in cash to cover the loss;
- (h) where you hold any cash or assets with the other party to a repo, your securities and cash balances may be subject to the security interests created in favour of the other party. In the event it would become impossible to make any payments or deliveries, the other party may be entitled to sell your securities to recover funds or to apply your cash to satisfy your obligations without prior notice.

## 8. Emerging markets

You should be aware that there may be potential risks posed by volatile political, legal and commercial conditions in emerging markets which may affect the value of or result in the loss of investments.

The absence of developed securities markets as well as potentially underdeveloped banking and telecommunications systems in such countries may give rise to greater custody, settlement, clearing and registration risks. Foreign investment in issuers in emerging markets may be restricted - sometimes such restrictions may not be published and investors may not be readily made aware of them. In such circumstances, there may be restrictions on repatriation of capital or an investment may have to be scaled down to comply with local foreign ownership restrictions.

Emerging markets may lack a fully developed legal system and the body of commercial law and practice normally expected to be found in countries with more sophisticated financial markets. Local laws affecting foreign investments continue to evolve in substance and interpretation, however this development might not always be positive for foreign investments as interpretation of the law sometimes might be arbitrary. Laws and regulations affecting foreign investments might change quickly and unpredictably.

Additional legal uncertainties arise from various local, regional and national laws and there is a lack of judicial or legislative guidance or interpretation on unclear or conflicting laws. Additionally, government authorities have a broad discretion on the implementation of the laws. Effectively, this means that there is no guarantee that investors can operate in a stable legal or regulatory environment. Having to comply with conflicting and/or arbitrary laws might have an adverse effect on the investments.

In addition, the rights of minority shareholders investing in equities have been given less protection than in more developed countries. There may also be no centralised system for recognising documents of title. Inability to prove or defend their title could adversely affect the investors. The rules in emerging markets with respect to regulating ownership, control and corporate governance may be seen as inadequate and may confer less protection for investors as compared to more developed economies and financial instrument may or may not be held in omnibus accounts and/or through intermediaries. There may be no or few restrictions for the company's management to terminate existing business operations, sell assets or in other ways materially impact the value of a company. Anti-dilution protection is also limited. Redress for violation of shareholder rights may not be as readily available as in developed countries.

The quality and reliability of official data published by governments and their agencies in emerging markets might not be equivalent to that available in developed markets.

Trading in securities on emerging markets may be halted or be subject to trading suspensions caused by extraordinary market volatility or other market disruption or force majeure events. There can be no assurance that the requirements of the market, necessary to maintain the listing of any securities will continue to be met or will remain unchanged.