BANQUE HAVILLAND

INVESTING WITH BANQUE HAVILLAND FOR LEGAL ENTITIES

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MiFID CLIENT CATEGORISATION

In order to deliver the appropriate level of protection, the bank is required to classify the client (you) within one of the client categories defined by the Markets in Financial Services Directive (MiFID). The reasoning behind the categorisation is the following: MiFID recognizes that investors have different levels of knowledge, skill and expertise and therefore the regulatory requirements should reflect this. Hence MiFID attaches different regulatory protections to each of these categories, with the result that those falling within the retail category - will be afforded a higher level of protection than those falling into the professional or eligible counterparty. Please see below for more detailed information:

Under MiFID, clients can be categorised as:

- RETAIL CLIENTS: The MiFID Retail Client category is the classification that offers the most protection and imposes the most requirements in terms of communication, disclosure and transparency. Retail Clients are clients that do not belong to the Professional Client or Eligible Counterparties categories. The Bank has decided that, by default, all clients will be considered as Retail Clients, unless they automatically qualify as a Professional Client or Eligible Counterparties or provide the required evidence to be considered as a Professional Client "on request".

- PROFESSIONAL CLIENTS: Professional Clients include entities not classified as Eligible Counterparties, which are authorised or regulated to operate in the financial markets, such as credit institutions, investment firms, insurance companies and pension funds. Large undertakings can also qualify as Professional Clients if they meet at least two of the three 'large undertakings' criteria:

  1. A balance sheet total of at least EUR 20 million
  2. Net turnover of at least EUR 40 million
  3. Own capital of at least EUR 2 million

  Under MiFID rules, Professional Clients need to provide less information to their financial institution than Retail Clients. In return, they receive a lower level of protection than Retail Clients.

- ELIGIBLE COUNTERPARTIES: Eligible Counterparties within the meaning of MiFID are clients who constitute professional clients by nature, according to the above, when the investment services provided to them consist in receiving, transmitting or executing their orders. Classification of a client as Eligible Counterparty does not apply to any other investment and subsequent services (as these are defined by MiFID), including investment advice and portfolio management. If the client meets the definition of an Eligible Counterparty, the bank will provide him/her with a low level of protection. As a consequence, Eligible Counterparties do not have to fill out the MiFID questionnaire.

REQUEST FOR A DIFFERENT CATEGORISATION

A Retail Client has the right to request a different classification, namely Professional Client "on request", and as a consequence will be provided with a lower level of protection. The criteria for classification to this particular category are the following, provided that at least two of them are met (Clients need to fill the document "MiFID CUSTOMER CLASSIFICATION"):

- The client has been carrying out transactions, of at least 10 000 Euros per transaction, at an average frequency of 10 transactions per quarter over the previous 4 quarters;
- The size of the portfolio exceeds 500 000 Euros, whereas the portfolio is defined as including cash deposits and financial instruments;
- The client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions to be entered into.

A Professional Client has the right to be classified as a Retail client and as a consequence will be provided with a higher level of protection.

An Eligible Counterparty has the right to be classified as a Professional or Retail Client and as a consequence will be provided with a higher level of protection.

Please contact your client advisor to verify if you can request a different client classification.

CONFIRMATION OF THE CLIENT CATEGORISATION

☐ The Client has read the MiFID Client Categorisation section and confirms that it will provide the necessary information where applicable.

The Client confirms that it discussed its client categorisation with its client advisor. Therefore, the Client agrees with its client category and confirms that it has signed all necessary documents:

☐ Retail Client

☐ Professional Client

☐ Eligible Counterparty

MiFID Questionnaire

☐ New Client

☐ Existing Client Account N° ____________________

ALL INFORMATION WILL BE KEPT STRICTLY CONFIDENTIAL.

The aim of this questionnaire is to help devise an appropriate investment strategy for your current situation and expectations.

This assessment is based on questions covering three main areas:

Section 1: Your knowledge and experience

Section 2: Your financial situation

Section 3: Your investment objective and risk tolerance

Please take your time and carefully think about the questions. Providing accurate answers will enable us to recommend an appropriate and more personalised investment proposal. Please be informed that in case you do not answer all the questions, the Bank is not allowed to provide you with investment services.

GUIDANCE ON WHO SHOULD FILL OUT THE QUESTIONNAIRE:

Section 1 should relate to the account holder, i.e. the relevant person(s) or the relevant decision making body of an entity.

In addition, any person and/or the relevant decision making body in case an entity having the power to effectively manage the account (e.g. holders of power of attorney) shall fill out a separate form.

If you are classified as a Professional Client you are considered to have the necessary knowledge and experience for financial instruments, so please skip section 1 and go directly to section 2.

Section 2 and 3 should relate to the account holder, i.e. the relevant person(s) or the relevant decision making body of an entity for each portfolio.

Example if there is more than one representative:

- Section 1 should relate to all persons authorised to act on behalf of the legal entity towards the Bank,
- Section 2 and 3 should relate to all representatives as they should be aligned on these sections.

Should you need any assistance, please do not hesitate to discuss this with your client advisor.

Section 1: Knowledge and Experience

REPRESENTATIVE 1

Understanding your personal and professional knowledge and experience as an investor will help us assess which products you may or may not be familiar with.

If you are classified as a Professional Client "per se" or Professional Client "on request", you are considered to have the necessary knowledge and experience for financial instruments, so please skip this section.

1) Please provide some information about your highest educational level.

- ☐ Secondary
- ☐ Higher education/finance
- ☐ Higher education/non-finance
- ☐ Other

2) Are you/have you been employed or active in the past 5 years in a position requiring financial knowledge for more than one year?

- ☐ Yes
- ☐ No

3) What type of investment service(s) are you familiar with?

- ☐ None
- ☐ Execution only services - I have traded financial instruments without assistance from a professional
- ☐ Investment Advice services - I have traded financial instruments with the assistance from a professional
- ☐ Discretionary Portfolio Management ("DPM") services - I have delegated the management of my assets to a professional

4) What kind of investment service are you looking for in the future?

- ☐ Execution only services- I would like to take my own investment decisions without assistance from the bank
- ☐ Advisory - I would like to be assisted in my investment decisions, but I want to be the one validating each decision
- ☐ DPM - I would like to delegate the management of my investments to the bank

5) **Please check in the table below the products whose features and risks you are aware of, and also provide some information about your experience with each financial instrument** *(In the table, knowledge means that you understand the distinctive features of the financial product and any important underlying risks).*

	KNOWLEDGE ?		HOW LONG ?			NUMBER OF TRANSACTION PER YEAR ?			VOLUME OF TRANSACTION PER YEAR ?		
	Yes	No	<1 year	1y-5y	>5 years	<10	10 - 50	>50	<2 500 €	2 500 €-10 000 €	>10 000€
Equity (incl. funds)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Bonds (incl. funds)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
CFD	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Alternative Fund/REITS	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Options, Futures, Forwards, Swaps or other derivatives	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Structured products (incl. DCI)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Precious Metals and Commodities	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Currency trading	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

REPRESENTATIVE 2

Understanding your personal and professional knowledge and experience as an investor will help us assess which products you may or may not be familiar with.

If you are classified as a Professional Client "per se" or Professional Client "on request", you are considered to have the necessary knowledge and experience for financial instruments, so please skip this section.

6) **Please provide some information about your highest educational level.**

☐ Secondary

☐ Higher education/finance

☐ Higher education/non-finance

☐ Other

7) **Are you/have you been employed or active in the past 5 years in a position requiring financial knowledge for more than one year?**

☐ Yes

☐ No

8) **What type of investment service(s) are you familiar with?**

☐ None

☐ Execution only services - I have traded financial instruments without assistance from a professional

☐ Investment Advice services - I have traded financial instruments with the assistance from a professional

☐ Discretionary Portfolio Management ("DPM") services - I have delegated the management of my assets to a professional

9) **What kind of investment service are you looking for in the future?**

☐ Execution only services - I would like to take my own investment decisions without assistance from the bank

☐ Advisory - I would like to be assisted in my investment decisions, but I want to be the one validating each decision

☐ DPM - I would like to delegate the management of my investments to the bank

10) **Please check in the table below the products whose features and risks you are aware of, and also provide some information about your experience with each financial instrument**
(In the table, knowledge means that you understand the distinctive features of the financial product and any important underlying risks).

	KNOWLEDGE ?		HOW LONG ?			NUMBER OF TRANSACTION PER YEAR ?			VOLUME OF TRANSACTION PER YEAR ?		
	Yes	No	<1 year	1y-5y	>5 years	<10	10 - 50	>50	<2 500 €	2 500 €- 10 000 €	>10 000 €
Equity (incl. funds)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Bonds (incl. funds)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
CFD	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Alternative Fund/REITS	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Options, Futures, Forwards, Swaps or other derivatives	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Structured products (incl. DCI)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Precious Metals and Commodities	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Currency trading	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Section 2: Financial Situation

Understanding your current financial situation is important when developing our investment proposal. For example, the current level of your liquid assets should be high enough to cover short term needs and emergencies. Furthermore, your finances and commitments should be able to bear the potential investment risks of your portfolio. Hence, if the level of your liquid assets is too low to cover any short term needs you may have, then our proposal would typically be more conservative.

Income and Spending

11) What is your annual net income?
(Please provide the figures from your financial statements of the previous year)

- ☐ Less than 200 000 EUR
- ☐ Between 200 000 and 1 000 000 EUR
- ☐ Between 1 000 000 and 3 000 000 EUR
- ☐ Over 3 000 000 EUR

12) What is your Equity (Assets – Liabilities)?
(Please provide the figures from your financial statements of the previous year)

- ☐ Less than 500 000 EUR
- ☐ Between 500 000 and 2 000 000 EUR
- ☐ Between 2 000 000 and 5 000 000 EUR
- ☐ Over 5 000 000 EUR

Assets and Liabilities

13) How do you expect your future net income to evolve over the next 5 to 7 years?

- ☐ It is likely to worsen
- ☐ It is likely to remain much the same
- ☐ It is likely to improve a little
- ☐ It is likely to improve significantly

14) What is the approximate value of your total financial investment portfolio?

- ☐ Less than 500 000 EUR
- ☐ Between 500 000 and 2 000 000 EUR
- ☐ Between 2 000 000 and 5 000 000 EUR
- ☐ Over 5 000 000 EUR

15) **What is your source of your income (in %)? Remark: the total should be 100%.**

(If the company's / organisation's main source of income comes from financial operations then please mark it as income from core activity)

	YOUR SCORE
Income from core activities	%
Profit/loss from financial operations	%
Sale of tangible assets	%
Other	%
TOTAL	%

16) **What is the composition of your assets (in %)? Remark: the total should be 100%.**

	YOUR SCORE
Liquid assets (deposits, cash)	%
Invested assets (securities, other financial assets)	%
Real estate	%
Other	%
TOTAL	%

Ability to bear losses

17) **Can you afford a loss during the investment period?**

- ☐ No, our legal entity cannot afford any loss because we do not have access to other funds
- ☐ No, but our legal entity has the ability to compensate a partial loss
- ☐ Yes, our legal entity is not dependent on the invested amount or potential annual returns

18) **Can you please indicate how much of your initial investment you could afford to lose without changing your business continuity?**

- ☐ Less than 5%
- ☐ Between 5 to 15%
- ☐ Between 16 to 25 %
- ☐ More than 25%

Section 3: Investment Objective and Risk Tolerance

The next set of questions will help establish your investment objective and risk tolerance. In this section, you should think about your future liquidity needs (such as investments, property purchase, and other costs…), your expectations and your time horizon.

It is also one of the most important sections in this questionnaire as it determines your risk tolerance (i.e. the extent to which you are comfortable with the risk of losing money on an investment).

Please take your time to consider the different scenarios and the impact they could have on your objectives and liquidity needs.

NOTE: Please tick one box only per question.

Investment objective and time horizon

19) How long is your investment horizon?

- ☐ 1-3 years
- ☐ 3-5 years
- ☐ 5-10 years
- ☐ 10-15 years
- ☐ Over 15 years

20) What is the primary goal of your investments?

- ☐ Preservation of capital: I would not like to lose any of the value of my investments but wish to achieve some solid yield. I am aware that low-risk products usually have lower yields.
- ☐ Secure investment: I am aware that purchasing financial instruments might entail some degree of risk. However, in the hope of higher profits, I am willing to assume some degree of risk and tolerate a slight decrease in the value of our portfolio.
- ☐ Medium term growth: I am aware that purchasing financial instruments might entail some degree of risk. However, in the hope of higher profits, I am willing to assume risks and tolerate a decrease in the value of some parts of my portfolio.
- ☐ Performance objective: In the hope of a long-term higher profit I am willing to risk the total amount invested.
- ☐ Speculation: In the hope of a long-term higher profit I consciously take the risk that in adverse cases, I might be obliged to pay further amounts in addition to losing the total amount invested.

Attitude to risk

This section is important to help assess your attitude to risk (risk profile), and therefore the types of financial instruments (and risks attached to them) that are suitable for you.

21) **What best describes your attitude to risk?**

- ☐ I do not want to take any financial risk and wish to preserve my capital at all times.
- ☐ I am very concerned about taking risks. I prefer lower returns to reduce the probability of loss although I understand it can occur even with traditionally low(er) risk investments.
- ☐ I am willing to accept moderate risks and probability of some loss in order to achieve higher returns.
- ☐ I understand investing and its associated risks. I could extend my investment horizon in pursuit of higher returns or to recoup investment losses.
- ☐ I wish to achieve high returns on my investments. I am willing to accept high risks and the probability of a substantial loss. I can also easily extend my investment horizon and/or top up my investments in pursuit of greater return.

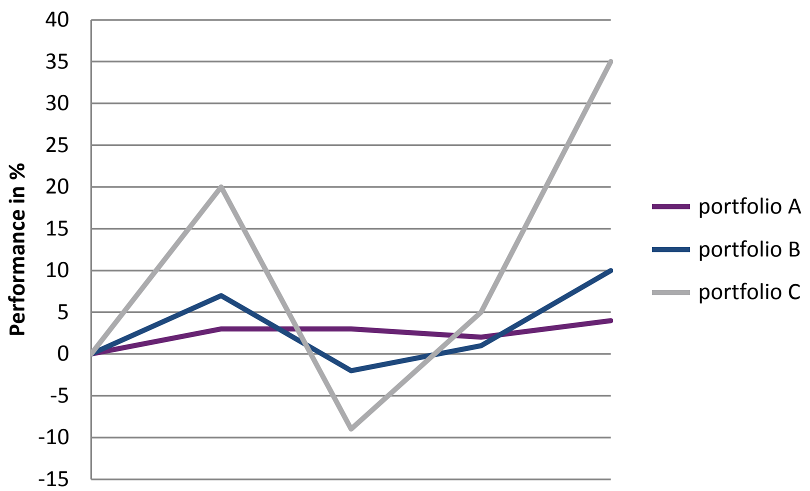
22) **One of the financial investments you made 6 months ago shows a 15% loss. How do you react?**

- ☐ I immediately sell the instrument and invest in a less risky one.
- ☐ I am worried but wait for the situation to improve.
- ☐ I understand the risk and wait calmly for the situation to improve.
- ☐ This is an opportunity to strengthen my investment and lower my average purchase price.

23) **From the following three options with which would you be satisfied when deposit rates are around 1% p.a. considering that risks will increase the higher the expected return?**

- ☐ Which will produce a stable 1-2% return in the next years.
- ☐ Which will produce returns between - 2% and + 10% in the next years.
- ☐ Which is expected to produce returns between - 15% and + 30% in the next years and may even lead to a loss exceeding the invested amount under extreme conditions.

24) **With which of the hypothetical portfolios below would you feel most comfortable?**



(The example is only given for illustrative purposes)

- ☐ Portfolio A
- ☐ Portfolio B
- ☐ Portfolio C

CLIENT DECLARATION

Information Disclosure and Investment Advice

- ☐ The Client understands and accepts that if it chooses not to answer the questionnaire Banque Havilland will not be in a position to provide any personal investment services, including portfolio management and/or financial instruments recommendations.
- ☐ The Client hereby declares that it has understood all questions of the questionnaire and all pieces of information provided in the questionnaire are true and correct.
- ☐ The Client shall inform the Bank or its client advisor as soon as any change occurs in its personal or financial situation that makes it necessary to change the answers.
- ☐ The Client has understood that in case the answers do not reflect its actual situation or if it should fail to inform the Bank or its client advisor of any change that might occur in its personal or financial situation, the Client might be exposed to risks exceeding its risk tolerance and/or its financial capabilities.

RISK DISCLOSURES

The purpose of the risk disclosure section is to give a brief outline of the main characteristics and risks that may be associated with the financial instruments in which you may invest. Should you have any specific questions or if you are interested in particular financial instruments, we recommend that you contact your client advisor for further information.

The Risk Disclosure document does not cover all risks inherent to investments in financial instruments. Its sole objective is to provide basic information and to make clients aware of the risks inherent to all investments in financial instruments. The Client should not enter into any investment transaction without understanding all the potential risks and having adapted his investments to his assets and needs.

- ☐ The Client hereby declares having read and specifically understood the Risk Disclosures section.

INFORMATION CONCERNING DERIVATIVES

The purpose in the section on derivatives is to ensure that the Client fully understands and accepts the high risks associated with trading derivatives.

- ☐ The Client does not want to trade derivatives.

  or;

- ☐ The Client hereby acknowledges that it has carefully read the information on section concerning the trading of options, futures and other derivatives and understand that trading with derivative instruments may carry special risks.

The Client fully understands (please tick):

- ☐ That all trading is at its own risk;
- ☐ The need to carefully study those conditions which cover trade with derivatives;
- ☐ That the conditions for trading with derivatives often change and must be constantly watched.

The Client declares that

- ☐ The Client is entitled to enter into the trading of derivatives
- ☐ The Client is NOT entitled to enter into the trading of derivatives

INVESTING WITH BANQUE HAVILLAND

- ☐ The Client wishes to receive a copy of the MiFID questionnaire by: ☐ E-mail ☐ Hard Copy ☐ E-banking
- ☐ The Client requests that Banque Havilland archives its copy of this form.

REPRESENTATIVE 1

Location ______________________ Date ______________

Name (in capitals) ______________________

Signature ______________________

REPRESENTATIVE 2

Location ______________________ Date ______________

Name (in capitals) ______________________

Signature ______________________

Risk Disclosures

The purpose of this section is to give a brief outline of the main characteristics and risks that may be associated with the financial instruments in which you may invest. Should you have any specific questions or if you are interested in particular financial instruments, we recommend that you contact your Client Advisor for any further information.

1. BASIC RISKS

1.1. ECONOMIC RISK

1.1.1. Changes in the activity of a market economy always influence prices of securities. Prices may fluctuate according to the rhythm of the economic activity. The duration and scope of the economic up and downturns are variable, as are the repercussions of those variations on the different sectors of the economy. In addition, the economic cycles vary depending on the different countries. Failure to take these factors into account as well as a mistaken analysis of the development of the economy when making an investment decision may lead to losses.

1.2. RISK OF INFLATION

1.2.1. Inflation may cause financial damage to an investor. Therefore, it is important to take into account the real value of the existing assets of the portfolio as well as the real yield that ought to be realised through such assets. To calculate the yield, the real interest rate should be taken into account, i.e. the difference between the nominal interest rate and the inflation rate.

1.3. BOND AND GOVERNMENT RISK

1.3.1. It may happen that an issuer of debt securities, although solvent, is unable to repay its loan and interest at expiration or defaults on the loan due to the unavailability of foreign currency or to currency exchange controls. Government risk includes the danger of economical as well as political instability. The ensuing unavailability of foreign currency or currency exchange controls may indeed lead to defaults on payments for the investors.

1.4. EXCHANGE RATE RISK

1.4.1. Since currency exchange rates fluctuate, there is an exchange rate risk whenever securities are held in a foreign currency. Material elements affecting the exchange rate of a currency are the inflation rate of a country, the gap between domestic interest rates and foreign rates, the assessment of the evolution of the economic activity, the political situation in the world and the safety of the investments. Additionally, internal political crises may weaken the exchange rate of the domestic currency.

1.5. LIQUIDITY RISK

1.5.1. Insufficient liquidity of the market may prevent investors from being able to sell securities at market prices. Fundamentally, a distinction has to be made between a lack of liquidity caused by market supply and demand and a lack of liquidity due to the characteristics of the security or the market practice.

1.5.2. A lack of liquidity due to market supply and demand arises when the supply or the demand for one security at a certain price is non-existent or extremely low. Under those circumstances, purchase or sell orders may either not be carried out immediately, or only partly or at unfavourable conditions (including as to price). In addition, higher transaction costs may apply.

1.5.3. A lack of liquidity due to the inherent characteristics of the security or to market practice may occur, for example, because of a lengthy transcription procedure for a transaction of registered shares, long performance delays because of market practices or other limitations of commerce.

1.5.4. Such insufficient liquidity may also come up due to short-term liquidity needs that cannot be covered quickly enough by the sale of securities.

1.6. RISK OF RUMOURS

1.6.1. Irrational factors such as opinions or rumours may affect the overall performance of securities. They may cause significant drops in prices despite the actual future prospects of the relevant issuer.

1.7. FINANCING RISK

1.7.1. Credit-financed purchases of securities contain additional risks. On the one hand, supplementary collateral may be required if prices move so as to exceed the credit limit guaranteed by a pledge. If the investor turns out to be unable to present such collateral, the bank may be forced to sell deposited securities at an unfavourable moment. On the other hand, the loss incurred due to an unfavourable evolution of the price of a security may exceed the initial investment amount.

1.7.2. Fluctuations of prices of pledged securities may influence the capacity to repay loans in a negative way. The investor needs to be aware that, as a consequence of the leverage factor accompanying the purchase of credit-financed securities, the sensitivity to price fluctuations of those investments will be proportionally more important. As a consequence, chances of gains increase, as do the risks of losses.

1.7.3. Consequently, the risks of such purchases rise according to the importance of the leverage.

1.8. SPECIFIC SECURITIES

1.8.1. Investing in the securities of companies (and governments) in certain countries (such as emerging nations or countries with less well regulated securities markets than the U.S. or the European Economic Area countries, for that matter) involves certain considerations not usually associated with investing in securities of United States/European Economic Area companies or the United States/European Economic Area Governments. For instance, there are, including among other things,

- political and economic considerations, such as greater risks of expropriation, nationalisation and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility;
- fluctuations in the rate of exchange between currencies and costs associated with currency conversion;
- certain government policies that may restrict investment opportunities;
- and in some cases less effective government regulation than is the case with securities markets in the United States or the European Economic Area.

2. SPECIFIC INVESTMENT RISKS

2.1. MONEY MARKET INSTRUMENTS

2.1.1. Definition and characteristics

The money market is an informal market on which financial institutions such as central banks, commercial banks, insurance companies, fund managers and large companies place their short term assets and obtain short-term financing (cash management). Short term refers to a maturity of less than one year. The main rates that apply in the Eurozone are EONIA, EURIBOR and LIBOR.

Given that borrowers on the money market are in general financial institutions and large companies, the securities issued against these loans are characterised by low risk but also by low returns. These securities are suitable for investors with a strong aversion to risk.

2.1.2. Types of products

2.1.2.1. DEPOSITS

2.1.2.1.1. Definition - Term deposits: These are cash deposits remunerated at a fixed maturity date at a rate determined in advance.

2.1.2.1.2. Characteristics

- INTEREST RATE: rate at which interest is paid by the bank to the depositor. The currency of the deposit will influence the day count convention.
- MATURITY DATE: Term deposits can be classified as short-term (up to 4 years), medium-term (4-8 years) or long-term (more than 8 years);
- INTERESTS: will be paid at maturity and will depend on the interest rate, the nominal amount and the length of the deposit.

2.1.2.1.3. Risks

These products are mainly subject to the risks of inflation (reinvestment risk), exchange rate (in case of a deposit in a foreign currency) and of insolvency of the counterparty.

2.1.2.1.4. Call deposits

Call deposits have the same characteristics as term deposits but differ from these as they have no specific maturity date. They can be terminated with a 2 days "call notice" from the depositor.

2.1.2.2. TREASURY NOTES

A treasury note is a short or medium-term security issued by the Treasury Department of a sovereign state and which represents a receivable drawn on the State.

2.1.2.3. COMMERCIAL PAPER

Commercial paper is a negotiable short-term debt security issued by a company.

2.1.2.4. CERTIFICATES OF DEPOSIT

A certificate of deposit is a negotiable debt security issued by a bank or credit institution.

2.1.3. Additional risks linked to money market instruments

The credit risk consists in the possibility of non-payment of interest and non-repayment of part of the capital. Systemic risks for money markets of OECD countries can only materialise in the extreme case of a severe banking crisis, such as the default of a major financial institution resulting in contagion of the international banking system.

As money market instruments are short-term products, the investor bears the risk of reinvestment, i.e. the risk that at expiration of the instrument, the reinvestment possibilities will yield a lower rate of interest than his initial investment.

2.2. BONDS

2.2.1. Definition

A bond is a certificate or evidence of a debt on which the issuer (a company or a governmental body) promises to pay the bondholders a specified amount of interest for a specified length of time, and to repay the loan on the expiration date. A bond may be in bearer or registered form. The interest payments on bonds may be either fixed or variable. The duration of the loan as well as the terms and conditions of repayment are determined in advance. The purchaser of a bond (the creditor) has a claim against the issuer (the debtor).

2.2.2. Characteristics

- Nominal or 'face' value

  The nominal or face value of a bond represents the total amount of a loan divided by the total number of bonds issued. It is used as the basis for calculating interest.

- Issue/redemption price

  The issue/redemption price can differ from the face value (also known as the par value). When the issue price is higher than the par value, the difference is the subscription premium (against the investor). When the redemption price is higher than the par value, the difference is the redemption premium (in favour of the investor).

- Market price or fair value

  The fair value of a bond is the listed price on the market or on the price on the OTC market. The fair value of a bond can differ significantly from its face value.

- Coupon rate

  The coupon rate is the basis for calculating the interest to be paid. The method for calculating the interest depends on the day count convention referred in the prospectus of the specific bond.

- Yield to maturity

  The rate of return anticipated on a bond if it is held until the maturity date. The calculation of YTM takes into account the current market price, par value, coupon interest rate and time to maturity. It is also assumed that all coupons are reinvested at the same rate.

- Redemption of bonds

  There are several types of redemption:

  - redemption at maturity;

  - bonds that can be redeemed early, either at the holder's request (put), or at the issuing company's request if it has reserved this possibility (call);

  - bonds redeemable by draw, i.e. the issuer has reserved the right to repay a given portion of its loan, determined by a draw, each year;

  - loan convertible into shares

2.2.3. Risks

- INSOLVENCY RISK: The issuer risks temporary or permanent insolvency entailing its incapacity to pay back interests and/or the loan. The solvency of an issuer may change depending on the general evolution of the economy and/or in consequence of changes related to the issuer, the economic sector of the issuer and/or political developments with economic consequences. The deterioration of the issuer's cash flow does logically influence the price of the securities issued by the issuer.
- INTEREST RATE RISK: The uncertainty concerning the evolution of market rates entails that the purchaser of a fixed-rate security carries the risk of a decrease of the price of a security in case of a rise in those interest rates. The longer the duration of the loan and the lower

the interest rate, the higher the sensitivity of the bonds to a rise in the market rates.

- EARLY REPAYMENT RISK: The issuer of a bond may include a provision the repayment of the bondholder in case of a decrease of the market rates. Thus, the expected yields may incur modifications.

- RISKS OF SPECIFIC KINDS OF BONDS: Certain kinds of bonds may carry, additional risks e.g. floating rate notes, reverse floating rate notes, zero coupon bonds, foreign bonds, convertible bonds, indexed bonds, subordinated bonds, etc.

  - For those types of bonds, investors should refer to the issuance prospectus about the specific risks involved in such investment and should purchase such bonds only on the full understanding of the risks involved of such investment.

  - For subordinated bonds, investors ought to enquire about the ranking of the debenture compared to other debentures of the issuer. Indeed, in case of a bankruptcy of the issuer, those bonds will only be reimbursed after repayment to all higher ranked creditors.

  - Reverse convertible bonds include the risk that the investor will not be entirely reimbursed, but will receive only an amount equivalent to the underlying securities at maturity.

2.3. SHARES

2.3.1. Definition

A share is a transferable security that represents a part of the capital of a company, listed or not. The share is a deed of property delivered to the shareholder to testify to his entitlements and can be in registered or bearer form. The share gives the holder pecuniary rights and rights of participation. It entitles the holder to attend general meetings and to vote as well as the right to receive, in the form of dividends, part of the profit generated by the company. The shareholder is also entitled to information about the company (financial results, earnings, annual reports, etc.). In exchange the shareholder participates fully in the company's risks.

2.3.2. Main characteristics of a share

- Shareholder's rights

  These rights are determined by law and the articles of incorporation of the issuing company.

- Return

  Stock prices may undergo unforeseeable price fluctuations which may lead to a risk of loss. Prices may increase or decrease in the short, medium or long-term without it being possible to determine the duration of those cycles. The general market risk must be distinguished from the specific risk attached to the company itself. Both risks, together or separated, influence the evolution of share prices.

- Sale of a share

  Barring legal provisions to the contrary, bearer shares can be sold without any specific formalities whereas there are often limitations or administrative constraints on sales of registered shares, which are registered in the company's register of shareholders.

2.3.3. Types of shares

- Bearer/registered shares

  The share is a registered share when the name of the owner is registered in the company register of shareholders, resulting in the need for certain formalities upon sale of the security. The owner of a bearer share is not registered and the share can be sold with no formalities.

- Ordinary or preference shares

  Depending on the issuing company's by-laws, some shares may carry advantages in terms of dividends in exchange for loss/reduction of voting rights at general meetings.

- Share certificates

  As its name implies, a share certificate is a certificate representing one or more shares of an issuer. They can be traded instead of shares. Share certificates comprise Fiduciary Depositary Receipts (FDR), American Depositary Receipts (ADR) and Global Depositary Receipts (GDR).

2.3.4. Additional risks linked to shares

Company risk: A share purchaser does not lend funds to the company, but makes a capital contribution and, as such, becomes a co-owner of the corporation. He is participating in the development of the company as well as in the chances of profits and losses. Therefore, the precise yield of such investment cannot be easily forecast. An extreme situation would consist in the bankruptcy of the issuing company, which may have as a consequence the complete loss of the invested amount.

DIVIDEND RISK: The dividend of a share mainly depends on the profit realised by the issuing company. Therefore, in case of low profits or even loss, dividend payments may be reduced or possibly no payments may be made.

2.4. INVESTMENT FUNDS

2.4.1. Definition

An investment fund is an investment vehicle whose sole purpose is to collect funds from the public and invest these in transferable securities or other financial assets, according to the risk spreading principle.

Shares in mutual funds, often known as units, can be in the form of capitalisation shares or distribution shares. If the investor opts for a capitalisation share, the revenues earned by the fund will be reinvested and no dividend is paid out to investors in the fund. This explains why the Net Asset Value (NAV) of a capitalisation share differs from that of a distribution share in the same fund. Distribution shares give right to payment of revenues in the form of an annual dividend.

2.4.2. Characteristics

An investment fund is classified as a closed-end fund when the number of shares it can issue is limited to a fixed number defined in its Articles of association. An investor can only purchase shares in a closed-end fund if an existing shareholder sells his shares or if the fund increases its capital. The majority of funds are open-ended investment funds, for which the number of shares that can be issued is not defined or limited in the Articles of association and to which investors can subscribe according to the frequency determined in the fund's prospectus.

2.4.3. Risks

For retail investment funds marketed to the general public, notably those governed by part I of the 2002 UCITS III law, the risks specific to a sovereign country and/or a company are so widely spread that the impact of a default would be small. Generally speaking, investment in a mutual fund offers the advantage of diversifying specific risks through professional management of the assets, documented in the prospectus and in the half-yearly financial reports. The fund's investment policy is such that the investor incurs no specific risk and the sole risk is market risk relating to the markets defined in the prospectus. Consequently, once the investor has made his choice of allocation for a given financial asset, a given geographic region or a specific investment theme, the return is largely dependent on the performance of the underlying market. Conventional funds generally follow a benchmark.

2.5. EXCHANGE TRADED FUNDS

2.5.1. Definition and characteristics: An ETF is an investment fund traded on stock exchanges, much like stocks. An ETF holds assets such as stocks, commodities, or bonds and trades at approximately the same price as the net asset value of its underlying assets over the course of the trading day.

2.5.2. Risks

- Market risk: ETF shares support the risk of a drop in their prices, this drop reflecting the decrease in value of the underlying asset of the ETF.
- The investor may get information about an ETF by consulting, among others, its prospectus.
- Counterparty risk: ETFs may incur an issuance and/our counterparty risk where ETFs utilize derivatives in order to track their respective index or otherwise fulfill their investment objective.
- Tracking risk: The ETFs price development may diverge from the price development of the index or targeted markets it is designed to track. This may be due to the costs or mechanisms used to gain exposure to the respective index or market.

2.6. DERIVATIVES

In finance, a derivative is a financial instrument (or, more simply, an agreement between two parties) that has a value, based on the expected future price movements of the asset to which it is linked—called the underlying asset— such as a share or a currency.

2.6.1. Option

2.6.1.1. Definition: An option is a derivative financial instrument that establishes a contract between two parties concerning the buying or selling of an asset at a reference price during a specified time frame. During this time frame, the buyer of the option gains the right, but not the obligation, to engage in some specific transaction on the asset, while the seller incurs the obligation to fulfill the transaction if so requested by the buyer. The price of an option derives among others from the value of an underlying asset (commonly a stock, a bond, a currency or a futures contract), the strike price, the premium based on the time remaining until the expiration of the option and the volatility of the underlying asset.

2.6.1.2. Characteristics

Option contracts may be quite complicated; however, at minimum, they usually contain the following specifications:

- whether the option holder has the right to buy (a call option) or the right to sell (a put option)

- the quantity and class of the underlying asset(s) (e.g. 100 shares of XYZ Co. B stock)
- the strike price, also known as the exercise price, which is the price at which the underlying transaction will occur upon exercise
- the expiration date, or expiry, which is the last date the option can be exercised
- the settlement terms, for instance whether the writer must deliver the actual asset on exercise, or may simply tender the equivalent cash amount

Options can be exchange-traded options or Over-the – Counter Options. Exchange-traded options (also called "listed options") are a class of exchange-traded derivatives. Exchange traded options have standardised contracts, and are settled through a clearing house with fulfillment guaranteed by the credit of the exchange. Over-the-counter options (OTC options) are traded between two private parties, and are not listed on an exchange. The terms of an OTC option are unrestricted and may be individually tailored to meet any business need.

The seller of an option will have to post a collateral margin in order to cover his credit risk.

2.6.1.3. Risks

- A call option could lose value when the price of the underlying asset decreases, whereas the opposite is true for put options. The price of an option does not solely depend on the price modification of the underlying asset. Other factors may come into play, like the maturity of the option and the volatility of the underlying asset.
- Consequently, a change in the option's price may appear although the price of the underlying asset remains unchanged.

The purchase of an option represents a highly volatile investment. An option might reach its maturity without any value. In this case, the investor loses the option premium as well as commissions paid for the purchase of the option.

The exercise of the option may either entail the payment of the difference between the strike price and the market price or the purchase or the delivery of the underlying asset.

The sale of an option requires, generally speaking, taking a higher risk than its purchase. Even if the seller receives a premium, the losses that he might incur may be potentially unlimited.

If market prices of the underlying asset vary in an unfavourable way, the seller of the option will have to adapt his collateral margin in order to maintain his position and avoid a close-out.

2.6.2. FORWARD CONTRACTS

2.6.2.1. Definition and characteristics: A forward contract or simply a 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. This is in contrast to a spot contract, which is an agreement to buy or sell an asset today. It costs nothing to enter a forward contract. The party agreeing to buy the underlying asset in the future assumes a long position, and the party agreeing to sell the asset in the future assumes a short position. The price agreed upon is called the forward price.

2.6.2.2. Risk

- Counterparty risk: as forward transactions are OTC instruments, the counterparty risk has to be taken into consideration. The counterparty risk can materialize if the counterparty is unable to meet its obligations at the forward date. However, forward contracts specification can be customized and may include mark-to-market and daily margining. Hence, a forward contract arrangement might call for the loss party to pledge collateral or additional collateral to better secure the party at gain.
- Underlying risk: as the fair value of a forward contract depends on the value of its underlying asset any fluctuation in the underlying price will have an impact on the fair market value of the forward contract.
- Interest rate risk: as stated above, the fluctuation of interest rates will directly impact the cost of carry and therefore the marked-to-market price of the forward.
- Specific risks for OTC: The market for standardised OTC transactions is in general liquid and transparent. Therefore, the selling off of contracts can normally be done. However, no market exists for OTC transactions that are not standardised. As such, positions may only be closed or disposed of with the agreement of the other party.

2.6.3. FUTURES

2.6.3.1. Definition and characteristics: A futures contract is a standardized contract between two parties to buy or sell a specified asset (eg. oil, gold) of standardized quantity and quality at a specified future date at a price agreed today (the futures price). The futures are derivative contracts and are traded on a futures exchange.

The party agreeing to buy the underlying asset in the future assumes a long position, and the party agreeing to sell the asset in the future assumes a short position.

INITIAL MARGIN: The initial margin is fixed at the moment inception of the contract. This margin is generally expressed in percentage of the value of the contract.

MARGIN CALL: When the margin posted in the margin account is below the minimum margin requirement, the broker or exchange issues a margin call. The investor now either has to increase the margin that he has deposited or close out their position. If he does none of these, then the broker can sell his securities to meet the margin call.

OFFSETTING POSITIONS: The investor may, at any time before the maturity of the future **offset his future position by engaging in an opposite transaction.** Gains and losses accumulated are realised.

SETTLEMENT: In case of an effective delivery of the asset, the contractual provisions need to be performed in full, whereas for cash settlement contracts, only the difference between the contract price and the market price at the moment of the delivery is payable.

2.6.3.2. Risks

MODIFICATION OF THE VALUE OF THE CONTRACT OR THE UNDERLYING ASSET: Despite a rise of the price of the contract or the underlying asset, the forward seller will have to deliver the underlying asset at the initially agreed price, which may be a lot lower than the current price.

- For the seller, the risk equals the difference between the price agreed upon in the contract and the market value at the settlement date. As the market value may theoretically rise in an unlimited manner, the loss potential for the seller is unlimited.
- In case the value of the contract or the underlying asset decreases, the forward purchaser will still have to accept the asset at the price agreed upon in the contract which can be potentially much higher than the current market value. Therefore, the seller's risk consists of the difference between the price agreed upon in the contract and the market value at delivery. Thus, the maximum the purchaser may lose is the nominal value of the underlying asset at the inception price.
- The investor will need to have constantly at his disposal a sufficient margin to cover any shortfall. In case the margin becomes insufficient, a margin call will be required from the investor at very short notice. If the investor defaults the transaction will be terminated before due term.

DIFFICULT OR IMPOSSIBLE SET OFF: Sock exchange may fix limits for certain contracts in order to limit excessive price fluctuations. It might therefore become very difficult if not impossible in such a case to set off the contract.

Stop-loss transactions, if they are possible, may only be performed during office hours. They do not allow to limit losses to the indicated amount, but they will be performed once the limited amount is attained and might become at that moment at best orders.

ACQUISITION: Selling an asset without owning it at the conclusion of the contract (short sale) entails the risk that the seller will have to buy the underlying asset in an extremely unfavourable market in order to be able, at settlement, to perform and to effectively deliver the underlying.

2.7. STRUCTURED PRODUCTS

2.7.1. Characteristics

The purpose of structured products is to capture a particular view or investment strategy within one packaged product. Whatever the view, investors receive a well-defined payout at the end of the investment term, linked to a particular asset or assets. A typical structured product will combine several different instruments such as options, swaps and forwards in one package. By using the right combination of derivatives, a structured product can reflect almost any market view: bullish or bearish, volatile or rangebound, broad or specific. The product itself can take many different legal forms (OTC transaction, note, certificate or fund). Some structured products offer full capital protection, but others offer partial or no capital protection. Structured products might be very complicated.

You could lose some or all of the money you put in to these products, so the investment can be done only upon a deep understanding of their structure.

A typical structured product will have two underlying investment components:

- a note: (a type of debt security). This component is used to provide capital protection. It may pay interest at a specified rate and interval, and may repay some or all of your original money at maturity; and
- a derivative: (a financial instrument linked to the value of something else, such as a stock market index or the price of another asset, such as oil or gold). This component is used to provide the potential growth element that you could get at maturity.

2.7.2. Risks

- Credit risk – a product may be designed and marketed by a 'plan manager', but the returns and guarantees are generally provided by a third party. If that third party goes bankrupt, you could lose some or all of your money, even if a product is called 'protected' or 'guaranteed'. Some products try to mitigate this risk by holding collateral (additional money in other assets) in case the third party fails. If this is the case, you should check that you understand how this collateral is treated and how safe it is.

- Market or investment risk – if the return of your original money depends on the performance of a stock market index or asset, then if the level of that index or asset falls during the term of the investment you may lose some or all of your original money. If this happens, you could lose your original money very quickly.
- Liquidity risk: the benefits offered (such as capital protection) are usually only available if the product is held for the full term. It may be difficult or expensive to access your money before the end of the investment term.
- No dividend income: even if a product is linked to the performance of a stock market index, you will not receive any dividend income from the companies which make up that index. This can mean that returns are lower than on other stock-market-linked investments.
- Capped returns: many products restrict or cap the level of the return you can receive, so if an index or asset price rises above the level of that cap, you do not receive additional returns.
- Averaging: the return offered by some products can depend on several measurements of index levels or asset prices during the life of the investment. While this can protect you from short-term falls in an index level or asset value, it may also prevent full exposure to any gains.
- Limited participation: many products only offer a proportion of any gains made by the index or asset to which they are linked.
- Inflation: even where a product is marketed as '100% capital protected', the real value of the capital can suffer significant erosion by inflation over the term of the investment.
- Tax: the tax treatment of structured products depends on their legal structure and on any tax wrapper in which the product is held.

2.8. HEDGE FUNDS

2.8.1. Definition and Characteristics

A hedge fund is a regulated investment fund that is typically open to a limited range of investors who pay a performance fee to the fund's investment manager.

Every hedge fund has its own investment strategy that determines the type of investments it undertakes and these strategies are highly individual.

As a class, hedge funds undertake a wider range of investment and trading activities than traditional long-only investment funds, and invest in a broader range of assets including long and short positions in shares, bonds and commodities. As the name implies, hedge funds often seek to hedge some of the risks inherent in their investments using a variety of methods, notably short selling and derivatives.

In most jurisdictions, hedge funds are open only to a limited range of professional or wealthy investors who meet criteria set by regulators, and are accordingly exempted from many of the regulations that govern ordinary investment funds. The net asset value of a hedge fund can run into many billions of dollars, and the gross assets of the fund will usually be higher still due to leverage. Hedge funds dominate certain specialty markets such as trading within derivatives with high-yield ratings and distressed debt.

2.8.2. Fee

A hedge fund manager will typically receive both a management fee and a performance fee (also known as an incentive fee) from the fund.

As with other investment funds, the management fee is calculated as a percentage of the fund's net asset value.

Performance fees (or "incentive fees") are one of the defining characteristics of hedge funds. The manager's performance fee is calculated as a percentage of the fund's profits, usually counting both realized and unrealized profits.

Some funds charge investors a redemption fee (or "withdrawal fee" or "surrender charge") if they withdraw money from the fund. A redemption fee is often charged only during a specified period of time (typically a year) following the date of investment, or only to withdrawals representing a specified portion of an investment. The purpose of the fee is to discourage short-term investment in the fund, thereby reducing turnover and allowing the use of more complex, illiquid or long-term strategies.

2.8.3. Risks

Despite a "hedge" being a means of reducing the risk of a bet or investment, investing in certain types of hedge fund can be a riskier proposition than investing in a regulated fund. Many hedge funds have some of these characteristics:

Leverage - in addition to money invested into the fund by investors, a hedge fund will typically borrow money or trade on margin, with certain funds borrowing sums many times greater than the initial investment and therefore increasing the risk.

Short selling - due to the nature of short selling, the losses that can be incurred on a losing bet are in theory limitless, unless the short position directly hedges a corresponding long position.

Ordinary funds very rarely use short selling in this way.

Appetite for risk - hedge funds are more likely than other types of funds to take on underlying investments that carry high degrees of risk, such as high yield bonds, distressed securities, and collateralized debt obligations based on sub-prime mortgages.

Lack of transparency - hedge funds are private entities with few public disclosure requirements. It can therefore be difficult for an investor to assess trading strategies, diversification of the portfolio, and other factors relevant to an investment decision.

Lack of regulation - hedge fund managers are, in some jurisdictions, not subject to as much oversight from financial regulators as regulated funds, and therefore some may carry undisclosed structural risks.

Short volatility - certain hedge fund strategies involve writing out of the money call or put options. If these expire in the money the fund may take large losses.

2.9. INVESTMENTS IN REAL ESTATE

2.9.1. Definition

Real estate investments comprise investments into "real" assets, such as residential housing, office buildings, retail properties, etc.

2.9.2. Characteristics

Such investments are generally made through investment funds or listed investment companies. Where such investment fund or investment company holds a number of different real estate investments, there is a certain degree of diversification. Such diversification generally reduces portfolio volatility and serves as a hedge against inflation.

Some real estate investments may have the characteristics of a private equity investment.

2.9.3. Risks

POTENTIALLY LIMITED LIQUIDITY: Liquidity and tradability of investments linked to real estate can vary a great deal. Such investments are usually illiquid and it may not be always possible to realise profits in the short term. Listed investment companies and open-ended investment funds investing in real estate generally have a daily market. On the other hand, real estate investments such as closed-ended funds may provide liquidity only monthly, quarterly, or annually with compulsory holding periods of at least several years.

LEVERAGE EFFECT: In case of leverage effect, movements in the market may generate major gains, but also high losses.

Information Concerning Derivatives

The purpose in this section is that Banque Havilland (Liechtenstein) Ltd. would like to ensure that the Account Holder(s) fully understand(s) and accept(s) the high risks associated with trading derivatives.

1. RISKS WITH DERIVATIVE INSTRUMENTS IN GENERAL

1.1. Trade with derivatives is associated with certain risks which are described in greater detail in this information sheet. The Client bears sole responsibility for the risks and must therefore personally, or through his capital management agent, become conversant with those conditions which apply for trade with such instruments and with the characteristics of the instruments. The client must also keep his placements (positions) in such instruments under constant surveillance. Information for surveillance can be found in the media (price information, etc.) and from Banque Havilland (Liechtenstein) Ltd.

1.2. Furthermore, the Client, in his own interests, should be prepared to take swift action should this prove necessary, for example, by providing further security or by terminating his placements in derivative contracts (offsetting or closing out his positions) through the purchase or sale of offsetting contracts.

2. THE USE OF DERIVATIVE INSTRUMENTS

2.1. A derivative is a form of agreement (contract) where the agreement itself is subject to trading on the securities market. The derivative is linked to an underlying property or an underlying value. This property or this value (described below simply as property) can be comprised of a financial instrument, some other asset with a financial value, for example, currency or a commodity, or some for of value indicator, for instance an index.

2.2. Derivatives can be used to create a hedge against an anticipated unfavourable price development affecting the underlying property. They can also be used to achieve a profit or yield with a smaller capital investment than would be required in order to make an equivalent deal directly in the underlying property. Derivatives can also be used for other purposes. The use of derivatives is based on a certain expectation as to how the price of the underlying property will develop over a certain period of time.

2.3. Before starting to trade with derivatives, it is therefore important that the Client is clear in his own mind as to the intended purpose and the price development in the underlying property to be expected and on that basis choose the right derivative instrument or combination of such instruments.

3. DIFFERENT TYPES OF DERIVATIVE INSTRUMENTS

3.1. The principal types of derivative instruments are options, futures and swap agreements.

3.2. An option is an agreement which means that one party (the issuer of the option contract) undertakes to buy or sell the underlying property to the other party (the holder of the contract) at a predetermined price (the exercise price). The agreement can, depending on the kind of option, either be utilised at any time during the maturity period (American option) or only on the closing date (European option). The holder pays a consideration (premium) to the issuer and receives a right to utilise the contract but does not have any obligation to do so. However, the issuer is obliged to fulfil the contract if the holder wishes it (exercising the option).

3.3. A future means that the parties enter into a mutually binding agreement with each other concerning purchase and sale respectively of the underlying property at a predetermined price and with a delivery or other execution, for example, cash settlement, of the agreement at a time shown in the agreement (the closure date). No premiums are paid since both parties have equal obligations in terms of the agreement.

3.4. A swap agreement means that the parties agree to make payments to each other on a current basis, for example, calculated at a fixed and floating interest rate respectively (interest swap), or to swap some form of property with each other at a certain point in time, for example, different kinds of currencies (currency swap).

3.5. Derivatives can also be combined in a certain way (strategy) in order to create, for instance, a certain hedge against variations in the price of the underlying property, or in order to attain a certain financial result in relation to the anticipated price development of underlying property.

4. CHARACTERISTICS OF DERIVATIVE INSTRUMENTS

4.1. The following characteristics which derivative instruments have should be carefully noted by anyone intending trading in such instruments. The construction of derivative instruments is such that the price development of the underlying property is reflected in the rate or the price of the derivative. This reflected price is often the greater impact in relation to the amount invested (paid premium) than the change in value of the underlying property. The reflected price is therefore referred to as a leverage effect and, on the one hand, can lead to a larger profit on the invested capital than if the investment had been made directly in the underlying property. On the other hand, the leverage effect can just as well result in a greater loss on the derivatives in comparison with the change in value of the underlying property, if the price development in the underlying property turns out different from expectations.

4.2. The leverage effect, i.e. the possibility for profit and the risk of loss respectively, varies depending on the derivative's construction and manner of use. Close surveillance of the price development of the derivative and of the underlying property is of the utmost importance. The Client, in his own interests, should be prepared to act swiftly, often during the day, should the derivative start developing in an unfavourable direction.

4.3. A party assuming an obligation through issuing an option or entering into a future agreement is required to provide collateral for such obligation for the outset.

4.4. The collateral requirements vary in step with upward or downward movements in the price of the underlying property with time and consequently the value of the derivative increases or decreases. Further cover in the shape of supplementary collateral may be required thereafter. Thus, the leverage effect also has its impact on the collateral requirement, which can change quickly and radically. If the Client fails to provide enough collateral, as a rule the counter party or the securities institution has the right to terminate the placement (close out the position) without reference to the Client in order to minimise the damage. A Client should therefore carefully follow the price development and have regard to the collateral requirement in order to avoid unintentionally closing out the position.

4.5. The maturity period for derivative instruments can vary from a very short period up to several years. The price changes are often greatest for instruments with a short maturity period. The price of a held option, for example, generally decreases more and more quickly towards the end of the maturity period due to the fact that the time value decreases. The Client should therefore also carefully watch the maturity period of the derivative instruments.

5. CONTRACTS FOR DIFFERENCES (CFDS)

5.1. Futures and options contracts can also be referred to as Contracts for Differences (CFDs).

5.2. These can be options and futures on an index, such as the FTSE100 index as well as currency, equities, and interest rate swaps. However, unlike other futures and options, these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option and you should be aware of these as outlined above. Transactions in contracts for differences may also have a contingent liability and you should be aware of the implications.

5.3. Contingent liability investment transactions, which are margined, require you to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

5.4. If you trade in futures, contracts for differences or sell options, you may sustain a total loss of the margin you deposit with your broker to establish or maintain a position. If the market moves against you, you may be called upon to pay substantial additional margin at short notice to maintain the position. If you fail to do so within the time limit required, your position may be liquidated at a loss and you will be responsible for the resulting deficit. Even if a transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when you entered the contract.

5.5. Contingent liability investment transactions may require you to make a series of payments and may expose you to substantially greater risks than the initial value of the transaction.

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