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Rules of Conduct

BSI Europe S.A.

General Information
Effective from May 2009

BSI

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1. Introductory note

1.1 Introduction to the MiFID Directive

The abbreviation MiFID indicates the European Directive on the market and financial instruments' intermediaries, and is therefore an acronym of "Markets in Financial Instruments Directive".
The aim of this directive has to be searched in the will of creating a system of common European rules which harmonise the field of the securities market. This will contribute significantly to a further integration of the related exchange and operation systems, reducing the costs of regulation for the financial institutions and increasing the rights and protection for consumers of these types of services.
The Directive and Implementation came into force on the 1st November 2007.

1.2 The Aims of the Directive

The general aim is to create an integrated, open, competitive and efficient European financial market. Above all, it is intended to create a financial services and capital market at an appropriate cost, with the right supervisory levels and a high degree of protection for consumers.
Attention' and legislation' efforts have been focused especially for this last scope: a market of financial services has to be offered to the consumers where they can orientate among the different products benefiting of an adequate availability in terms of professional consulting, independent and specific training.
The standard of protection against potentially incorrect conduct by operators of the financial system have therefore been strengthened by the implementation of a higher level of transparency and the introduction of, among other things, the requirement to execute purchase and selling orders at the best possible market conditions.

1.3 Contents of the Directive

1.3.1 Scope of application

MiFID applies to the companies that offer investment services and activities, namely (non exhaustive list):
- securities dealing on own account,
- order execution on behalf of clients,
- portfolio management,
- investment advice.

1.3.2 Impact on banking intermediaries

This directive will have a major impact on daily banking operations. Its introduction requires the review, restructuring and adjustment of the legislation system in the following sectors:
- corporate governance,
- investment operations,
- client-related processes,
- products and services marketing,
- communication and information to clients.

This means that the Bank has the obligation to inform the client about the Bank, its services and financial instruments, its methods of executing client orders and costs and charges.
Information provided to clients must be correct, clear and not misleading.
All clients must be classified on the basis of their specific knowledge of the securities market and this classification has to be communicated to the client.
With respect to the above-mentioned communication, it is important to consider adequate information standards in his/her favour with an investment consulting as much timely and immediate as possible, considering any relevant information related to the transactions' execution.

1.4 Conclusions

This European Directive aims to abolish, or at least review, the monopoly of the regulated stock markets in order to enable banks and private intermediaries to compete among them. The directive aims to create a single market, facilitating competition among the different countries. It also stresses the protection of clients/consumers through greater transparency and a higher degree of responsibility by intermediaries towards them.
Every client of the Bank will be offered:
- timely and accurate information on the execution of transactions,
- execution of orders received under the best possible conditions,
- assurance that the risks undertaken have not only been understood by the client but also that they are appropriate to his/her objectives.

2. General information on the Order Execution Policy

Terms in capital letters are defined in Section 2.2 of this chapter, if they are not directly defined in the policy.

2.1 Aim

BSI Europe S.A. (hereinafter: "BSI" or the "Bank") is a private bank that focuses on quality of service and the interests of its clients. It shall therefore take all reasonable steps, when providing investment services, such as the execution of client orders or the reception and transmission of orders for execution to its clients, to consistently obtain the best possible result (known as "best execution") for its clients.
In order to do so, the Bank is required to establish an order execution policy (hereinafter: the "Execution Policy") and provide appropriate information to its clients on such policy.
The aim of this document is to provide information to clients on how the Bank shall implement the Execution Policy, for the purposes of greater transparency.

2.2 Terms and definitions

BSI or the Bank
The Luxembourg affiliate of BSI AG, Lugano, registered as a bank in Luxembourg and regulated by the Commission de Surveillance du Secteur Financier (CSSF).

BSI Group
Group of legal entities owned or controlled by BSI AG, Lugano, a company incorporated in Switzerland as a bank and regulated by the Swiss Federal Banking Commission (FBC).

Client
Private client or Professional client (see definitions below) of the Bank.

Debt Instrument
A paper or electronic obligation that enables the issuing party to raise funds by promising to repay a lender in accordance with the terms of a contract. Types of debt instrument include notes, bonds, certificates, mortgages, leases or other agreements between a lender and a borrower.

EAM
External Asset Manager.

EU
European Union

Execution Criteria
Criteria listed under Section 2.5.

Execution Factors
Factors listed under Section 2.5.

Execution Methods
Methods listed under Section 2.8.

Execution Venue
A Regulated Market, an MTF, a Systematic Internaliser, or a market maker or other liquidity provider or an entity that performs a similar function in a third country to that performed by any of the foregoing.

Financial Instruments
Term according to the definition given under annex I, Section C of MiFID. Amongst other instruments, these include:

1. transferable securities;
2. money-market instruments;
3. units in collective investment undertakings;
4. options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices, commodities or other financial measures which may be settled physically or in cash or in kind;
5. derivative instruments for the transfer of credit risk; and
6. financial contracts for differences.

For the avoidance of doubt, "Financial Instruments" do not include foreign exchange spot transactions or loans, and certain exclusions apply to commodities.

MiFID
Directive 2004/39/EC of the European Parliament and the Council of 21 April 2004 on Markets in Financial Instruments and any implementation directives and regulations.

Multilateral Trading Facility ("MTF")
Multilateral system, operated by an investment firm or market operator, which brings together multiple third-party buying and selling interests in Financial Instru-

ments - within the system and in accordance with non-discretionary rules - in a way that results in a contract, in accordance with the provisions of Title II of MiFID.

Order
Instruction to buy or sell a Financial Instrument given by the Client and accepted by the Bank for execution or transmission to a third party.

OTC
Over-The-Counter. This term refers to a method of trading Financial Instruments in a context other than on a Regulated Market.

Private Client
This term corresponds to the term "Retail Client" used in MiFID, i.e. a client who is not a Professional Client.

Professional Client
A client meeting the criteria set out in annex II of MiFID.

Regulated Market
Multilateral system operated and/or managed by a market operator which brings together, or facilitates the bringing together, of multiple third party buying and selling interests in Financial Instruments - within the system and in accordance with its non-discretionary rules - in a way that results in a contract, in respect of the Financial Instruments admitted to trading under its rules and/or systems, and which is authorised and functions normally and in accordance with the provisions of Title III of MiFID.

Section
A section of this document.

Specific Client Instruction
Instruction given by the Client to the Bank on how to execute the Order according to his/her/its specific wishes. See Section 2.4.

Systematic Internaliser
An investment firm which, on a regular, frequent and systematic basis, deals on its own account by executing Client Orders outside a Regulated Market or an MTF.

UCITS
Undertakings for the Collective Investment of Transferable Securities, in accordance with the applicable European Council Directive.

2.3 Scope

Whenever the Bank receives and transmits Client Orders and/or executes Orders on a Client's behalf, the present Execution Policy shall apply.
The Bank shall execute Orders "on a Client's behalf" where the Client legitimately relies on the Bank to protect his or her interests in relation to the pricing or other aspects of the transaction that may be affected by how the Bank executes the Order.

Indicative examples of cases where the Bank executes an order on behalf of a Client are when the Bank:
– executes an Order by dealing as agent, meaning that the Bank takes a Client Order and places it, on behalf of the Client, with an Execution Venue for execution;
– executes an Order by dealing as risk less principal on behalf of a Client. In this type of transaction, the Bank will typically deal as principal with the Client at the same time and on the same terms, as the Bank enters a transaction as a principal with a counterparty.

Indicative examples of cases where the Bank generally does not execute an order on behalf of a Client are when the Bank:
– engages in proprietary trading by quoting on a "request for quote" basis, meaning that the Client requests a quote from the Bank for a specific amount of a specific Financial Instrument, and the Bank provides such a quote which the Client accepts and requests to transact on this basis.
– displays a quote as a market maker and the Client accepts the displayed quote and requests to transact on this basis.

The Bank's Execution Policy does not apply where Clients, or a party acting on behalf of Clients, access the Bank's brokers directly.

2.4 Specific Client Instructions

Whenever there is a specific instruction from the Client (hereinafter "Specific Client Instruction") the Bank shall execute the Order following the specific instruction. The fact that the Client has given specific instructions that covers only one part or aspect of the Order shall not release the Bank from its best execution obligations in respect of any other parts or aspects of the Client Order that are not covered by such instructions.

The Bank draws the Client's attention to the fact that providing specific instructions may prevent the Bank from taking the steps that it has designed in its order execution policy to obtain the best possible result in respect of the elements covered by those instructions.

2.5 Best execution – Execution Factors and Execution Criteria

In the absence of Specific Client Instructions, when executing Orders on the Client's behalf, the Bank shall take all reasonable steps to consistently obtain the best possible result for him/her taking into account some or all the

following factors: price; costs; speed; likelihood of execution and settlement; size; type or any other consideration relevant to the execution of the Order (hereinafter the "Execution Factors").
Without prejudice to the above, the Bank shall determine the relative importance of the Execution Factors by taking into account the following criteria (hereinafter the "Execution Criteria"):
1. the characteristics of the Client (Private or Professional);
2. the characteristics of the Order;
3. the characteristics of the Financial Instruments that are the subject of that Order; and
4. the characteristics of the Execution Venues to which that Order can be directed.

In order to consistently obtain the best possible result, the Bank may also use other information considered reliable that is available to the Bank, and apply its commercial judgement and know-how.
For its own products, the Bank shall calculate or obtain from third parties a fair value and apply a spread.

2.6 Best execution – Total consideration

When executing Orders on behalf of Private Clients, and in some circumstances for Professional Clients, the Bank shall determine the best possible result in terms of the total consideration, representing the price of the Financial Instrument and the costs related to execution, which shall include all expenses incurred by the Client, directly related to the execution of the Order, including Execution Venue fees, clearing and settlement fees and any other fees paid to third parties involved in the execution of the Order. However, if other Execution Factors are instrumental in delivering the best possible result in terms of the total consideration, they will be given precedence over the immediate price and cost factors.

2.7 Execution Venues

The term "Execution Venues" refers to a Regulated Market, a Multilateral Trading Facility (MTF), a Systematic Internaliser, a market maker or other liquidity provider or an entity that performs a similar function in a third country to that performed by any of the foregoing.
A list of the Execution Venues used by the Bank, and on which it places significant reliance, can be found in Annex of the present document. This list, relating to each class of Financial Instruments, is not exhaustive but includes those Execution Venues that enable the Bank to consistently obtain the best possible result for the execution of Client Orders.
In order to consistently obtain the best possible result for the Client when executing Orders, the Bank will regularly assess the Execution Venues available in respect of any Financial Instruments to identify those which deliver the highest quality of Order execution. The list of Execution Venues may therefore be updated at any time and will be available at the Bank, free of charge and on request of the client, in its most updated version.
In the absence of Specific Client Instructions, and subject to the Execution Criteria and Execution Factors, the Bank shall select the Execution Venue, which it considers the most suitable. To the extent that the Bank believes it can trade to the advantage of (or at no disadvantage to) the Client, it may use itself or any other entity of the BSI Group as the Execution Venue. In any case, all sources of reasonably available information shall be taken into consideration to consistently ensure the best possible result for the Client.

2.8 Order Execution, reception and transmission

In the event that no Specific Client Instructions are received by the Bank, and subject to the above, the Bank will generally execute Orders by applying one or a combination of the following execution methods (hereinafter the "Execution Methods"):
1. directly on a Regulated Market or MTF or, where the Bank is not a direct member of the relevant Regulated Market or MTF, with a third party participant with whom it has entered into an agreement for handling Orders for that Regulated Market or MTF; and/or
2. by acting itself (or using any other entity of the BSI Group) as the Execution Venue; and/or
3. through an Execution Venue that it considers the most appropriate on the OTC market; and/or
4. with a matching Order from another Client.

In order to provide the best possible result for the Client, the Bank shall be entitled to transmit Execution Orders to another entity of the BSI Group or to an external entity, such as a third party broker, unless Specific Client Instructions prevent the Bank from doing so.
Subject to the above, assuming that no Specific Client Instructions are given, and in order to consistently provide the best execution, the Bank shall execute Orders as set out below for each of the following Financial Instruments:

Equities
The Bank shall process Orders related to equities through an electronic order management system and shall access the Regulated Market directly or via any other entity of the BSI Group or via a third party broker (see Annex I).
Given that most instruments in this class of Financial Instruments are traded on a Regulated Market, the majority of Orders related to equities shall be executed by accessing the market where such instruments are traded.

Debt Instruments
The Bank shall group and process Orders related to Debt Instruments via specific execution desks that regularly monitor the debt markets.

If a Debt Instrument is also traded on a Regulated Market or MTF, the Bank will usually execute the Order on such a market or MTF, either directly or via any other entity of the BSI Group or a third party broker.

Exchange traded derivatives

The Bank shall group and process Orders related to exchange traded derivatives via specific execution desks that access the Regulated Markets where these instruments are traded, either directly or via any other entity of the BSI Group or via a third party broker.

OTC traded Financial Instruments (including structured products)

The Bank shall process Orders related to OTC traded Financial Instruments via specific execution desks that regularly monitor the OTC markets where such instruments are traded.
All sources of reasonably available information will be taken into consideration to ensure best execution.
When the Bank executes an Order on a structured product issued or placed by the Bank, it determines the execution price, using a pricing model to calculate a fair price, and applies a bid/ask spread.

UCITS and other types of Fund

The Bank shall process Orders related to UCITS and other types of Fund by transmitting them to the designated agent of the fund for execution at the NAV per share.

2.9 Client Order handling

Orders executed on behalf of Clients are promptly and accurately recorded and allocated.
Otherwise comparable Client Orders are carried out sequentially and promptly unless the characteristics of the Order or prevailing market conditions make this impracticable, or the interests of the Client require otherwise. Client Orders are not be treated as otherwise comparable if they are received by different media and it would not be practicable for them to be treated sequentially. Unless otherwise required by applicable laws, rules, regulations or contractual obligations, the Bank may aggregate Client Orders. The overall aggregation of orders is unlikely to work to the disadvantage of any Client whose order is to be aggregated. Nevertheless, aggregation may work to the disadvantage of a particular client in respect of a specific order.

2.10 Monitoring, updating, reviewing and notifying

The Bank shall monitor the effectiveness of its order execution arrangements and Execution Policy in order to identify and, where appropriate, rectify any deficiencies. In particular, it shall assess, on a regular basis, whether the Execution Venues in Section 2.7 provide for the best possible result for the Client, and update such list when required.
The Bank shall review its Execution Policy and order execution arrangements annually. A review shall also be carried out whenever a material change occurs that affects the Bank's ability to continue to consistently obtain the best possible result for its Clients.
The Bank shall notify the Client of any material changes to its order execution arrangements or its Execution Policy via the usual communication channels agreed with the Client in the Bank's General Conditions.

2.11 Consent

In accordance with the laws of the Grand Duchy of Luxembourg, in implementing MiFID, the Bank is required to obtain the prior consent of its Clients for its Execution Policy.
The Client will be deemed to have provided such consent when he/she/it gives an Order after 1 November 2007. The Client will be deemed to have provided such consent if the Bank's MiFID order execution policy has been received by him/her/it in October 2007 at the latest, unless he/she/it has expressly denied by written notice to the Bank his/her/its consent.
The Bank is also required to obtain the prior express consent of its Clients before executing Orders outside a Regulated Market or MTF unless the Financial Instruments to which the Order relates are only available outside a Regulated Market or MTF. The Client will have the option to give his/her/its prior express consent by signing and returning to the Bank the Form of Consent sent to him/her/it or advised verbally, by telephone or in person, with an appropriate record kept.

Annex I

Execution venues

The following list of execution venues is not exhaustive and may be changed at any time in accordance with Section 2.7 of the Execution Policy.

Regulated Markets that the Bank or another entity of the BSI Group is a member of:

SWX Swiss Exchange	(Equities, Debt instruments, Exchange traded derivatives, ETF)
Eurex	(Equities, Debt instruments, Exchange traded derivatives)
Virt-X	(Equities, ETF)

Regulated Markets accessed by the Bank or another entity of the BSI Group via a third party broker:

American Stock Exchange AMEX
Athens Stock Exchange
Australian Securities Exchange
Borsa Italiana
Boston Option Exchange
Brazilian Mercantile & Futures Exchange
Budapest Stock Exchange
Cairo and Alexandria Stock Exchange
CATS-OS
CBOE Futures Exchange
Chicago Board of Trade
Chicago Board Options Exchange
Chicago Mercantile Exchange
EDX London
Euronext Amsterdam
Euronext Liffe
Euronext Liffe Bclear
Frankfurt Stock Exchange
Hong Kong Futures Exchange
Hong Kong Stock Exchange
Hong Kong Exchange & Clearing Ltd
International Securities Exchange
Istanbul Stock Exchange
Italian Derivatives Market
Jakarta Stock Exchange
Johannesburg Stock Exchange
Korea Stock Exchange
London Stock Exchange
Luxembourg Stock Exchange
Madrid Stock Exchange
MEFF
Mexican Stock Exchange
NASDAQ
Nasdaq Liffe Markets, LLC
National Stock Exchange of India
New York Stock Exchange
New Zealand Stock Exchange
Nordic Derivatives Exchange
NYSE ARCA
NYSE Euronext Amsterdam Stock Exchange
NYSE Euronext Brussels Stock Exchange
NYSE Euronext Lisbon Stock Exchange
NYSE Euronext Paris Stock Exchange
OMX Copenhagen Exchange
OMX Helsinki Exchange
OMX Stockholm Exchange
ONE Chicago
Osaka Securities Exchange
Oslo Stock Exchange
Philadelphia Board of Trade
Philadelphia Stock Exchange
Philippine Stock Exchange
Prague Stock Exchange
Russian Trading System Stock Exchange
São Paulo Stock Exchange BOVESPA
Singapore Exchange Derivatives Trading
Stock Exchange of Singapore
Stock Exchange of Thailand
Sydney Futures Exchange
Taiwan Stock Exchange
Tel Aviv Stock Exchange
Thailand Futures Exchange
Tiqs
Tokyo Stock Exchange
Toronto Stock Exchange
UBS Investment Bank
Vienna Stock Exchange
VWD Tradelink
Warsaw Stock Exchange

Other Execution Venues

The Bank may execute Client Orders with third party brokers, liquidity providers or market makers on OTC markets.

Such counterparties are selected and regularly monitored in accordance with a clear policy set up to provide best execution for the Client. Precedence will be given to counterparties meeting the following criteria:
- Sound reputation (best in class)
- Price transparency
- Settlement reliability
- Liquidity
- Quotes with reliable dealable prices on screen
- Good geographical and industry coverage
- Straight-through-processing (STP) connection availability.

These criteria are weighted based on inputs from all relevant internal departments, and take into account settlement, reputational and credit risk issues.

3. General information on the Conflict of Interest Policy

3.1 Purpose

BSI Europe S.A. (the "Bank") is a member of BSI Group, which forms part of the Generali Group, and provides a full range of services, including the provision of banking services and related activities.

The Bank and its clients are commercial partners having their own particular interests. In such a situation, conflicts of interest between the different parties may arise. In this context, the Bank has adopted a Conflicts of Interest Policy (the "Policy"), which addresses potential conflicts of interest. The Policy sets out a list of identification criteria and a list of processes and measures to manage conflicts of interest which could arise between the Bank, the Group or its shareholders and employees and its clients on the one hand or between its different clients on the other hand.

The Bank operates according to the rules and procedures of the Policy and internal regulations in order to ensure that business areas and members of the Bank work independently of each other, and to restrict access by the specific member(s) of staff responsible for managing the client's affairs to certain areas of information.
Therefore, the Policy allows the Bank not only to comply with regulatory requirements, but also to promote a culture of integrity and to apply high standards of ethical conduct in its business relationships with clients.
The Bank wishes to inform clients about the Policy and has therefore summarised its key aspects in this document.

3.2 Identification of potential conflicts of interest

The client acknowledges and accepts that the Bank, or a relevant person, or a person directly or indirectly linked by a relationship of control to the Bank (a "Third Party") is entitled to provide services to, or effect transactions with or for, the client notwithstanding that the Bank may have a material interest in, or a conflict of duty in relation to the transaction or investment related. The client also acknowledges and accepts that the Bank shall operate in any manner that it deems appropriate in such cases.
The Bank has identified the following circumstances where a potential conflict of interest may primarily arise when the Bank or a Third Party provides investment services to the client (not an exhaustive list):

1. The Bank or a Third Party is likely to make a financial gain, or avoid a financial loss, at the expense of the client.
2. The Bank or a Third Party has an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, distinct from the client's interest in that outcome.
3. The Bank or a Third Party has a financial or other incentive to favour the interest of another client or group of clients over the interests of the client.
4. The Bank or a Third Party carries on the same business as the client.
5. The Bank or a Third Party receives or will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard commission or fee for that service.

3.3 Measures taken by the Bank to manage potential conflicts of interest

The Bank has in place various processes and takes a number of specific measures to actively manage potential conflicts of interest and thus to minimise any risk of damage to client interests, including:

1. Organisational provisions, such as the segregation of tasks likely to create conflicts of interests, a remuneration policy preventing profit-sharing directly linked to the success of a specific transaction, procedures relating to personal transactions initiated by its employees or measures in relation to employees' training.
2. Information barriers and other provisions aiming to prevent, or restrict to the bare essential, the transfer of sensitive information between persons or entities involved in activities where a conflict of interests may arise (i.e. "Chinese walls").
3. Compulsory ban on the Bank itself, financial analysts and other entities involved in the production of investment research on accepting advantages from entities having significant interests in the object of the investment research. However, gifts or minor tokens of hospitality of a value lower than the threshold fixed by the Policy will not be considered as an advantage in this respect.

Information barriers are often referred to as "Chinese walls", and prevent confidential information from circulating between parts of the business that are required to act

independently of each other. Certain services are particularly vulnerable to conflicts of interests, should information be transmitted from one operational entity to another. This is the case, in particular, for portfolio management, investment advice and corporate finance activities.
Physical, electronic and operational information barriers are set up in order to prevent and control the circulation of confidential information between persons who are exposed to conflicts of interest within the framework of their activities, if such circulation of information could harm the interests of one or more clients.
Physical information barriers include, for example, the siting of the departments concerned in different buildings/places, systems controlling access to certain spaces, access restrictions for visitors, conservation of documents in protected locations with restricted access etc.
Examples of electronic barriers are special electronic security systems, mandatory passwords for obtaining access to certain information.
At an operational level, the business areas concerned are managed by different persons who must comply with the joint signature requirement, according to internal procedures, in order to prevent/limit the possible exercise of an improper influence by one of those directors only.
A temporary departure from these principles is only allowed in exceptional circumstances. Any such departure must be justified and is meticulously supervised.
As a result, the Bank offers services under the agreement regulating the business relationship between the Bank and the client on the basis of information known only to specific employees responsible for the management of clients' affairs.

3.4 Specific scenarios

In cases where all reasonable efforts and measures taken to manage conflicts of interest are not deemed sufficient to ensure, with reasonable confidence, that risks of damage to client interests will be prevented, the Bank will consider whether a disclosure is appropriate or whether it is in the client's best interests to refrain from undertaking business on his/her/its behalf.
In certain scenarios, the Bank may disclose to the client, in a durable medium, the general nature and, as the case may be, the source of the conflict of interest, enabling the client to make an informed decision with respect to the service in the context of which the conflict of interest arises.
Where the Bank considers that the risk of damage to client interests is too great, it will refuse to undertake business on behalf of the client. Therefore, the Bank reserves the right in some circumstances to decline the provision of advisory services or the execution of transactions with or for the client, in connection with specific investments as a consequence of the Bank's relationship with other clients and with members of the Group. In this event, the Bank shall not have any disclosure obligations regarding the reasons for its refusal.

3.5 Updating of the Policy

The Policy will be updated regularly, taking into account, in particular, changes in legislation, new services and products offered by the Bank or the occurrence of new sources of potential conflicts of interest.

4. General information on inducements

BSI Europe S.A. (the "Bank") offers a wide range of investment services to its clients. In particular, the Bank provides each client with sophisticated advice and high-quality explanations on his/her investment in financial instruments and offers him/her its expert assistance in making a well-founded investment decision.
The provision of these services is cost-intensive for the Bank in terms of personal and organisational expense. This expense is covered by remuneration, fees, commission, rebates, refunds and other monetary benefits ("Monetary Benefits") the Bank receives from other BSI Group entities or third parties in connection with the provision of services to the client. In the same context, the Bank may also pay Monetary Benefits to other BSI Group entities or to third parties. Furthermore, the Bank may receive or provide non-monetary benefits which will typically consist of training and sales support ("Non-Monetary Benefits").
Such Monetary and Non-Monetary Benefits are collectively called "Inducements". Due to the various information barriers employed under the Bank's conflict of interest policy and referred to in the Bank's information leaflet, Inducements are negotiated independently of the commercial activity of the Bank, as the account managers are not responsible for the negotiation of such Inducements. As investment recommendations or other advice and portfolio management decisions are not therefore influenced by Inducements paid or received, the Bank is always acting honestly, fairly and professionally in its clients' best interests. In addition, the Bank ensures that the Inducements paid or received enhance the quality of the relevant service to the Client.
In accordance with the Bank's commitment to integrity and fair trading, and in order to comply with legal requirements and establish a high standard of transparency for the client's investment decision, the Bank sets out below more detailed information on Inducements paid or received.

4.1 Monetary Benefits

The Bank may receive or pay Monetary Benefits in connection with the provision of services to the client.

4.1.1 Monetary Benefits received

Generally speaking, the amount of Monetary Benefits received does not vary with the type of service provided. The Bank offers a full range of in-house or third party investment schemes to its "execution only" clients and may receive Monetary Benefits amounting, in general, to up to 50% of the collective investment scheme's management fees. The same applies to the provision of investment advisory or portfolio management services.
The Bank distributes BSI investment products as well as third party investment products. These distribution activities are recompensed by the payment of Monetary Benefits to the Bank. In essence, the receipt of such Monetary Benefits allows clients to have access to and benefit from the investment products concerned.

The exact amount of Monetary Benefits received depends on various factors, such as the type of financial instrument, the frequency of transactions and the volume of the investment.

For example, in the case of the acquisition of shares of investment funds, the Bank may receive Monetary Benefits amounting, in general, to up to 0.3% of the investment volume on an annual basis for money market funds, up to 0.75% for alternative funds, up to 0.65% for bond funds and up to 1.1% for other investment funds.
As a result of the foregoing, the Bank may receive such Monetary Benefits for investment funds or other financial instruments, such as structured products, in addition to the remuneration paid by the client to the Bank for providing the portfolio management or investment advice service or for executing an order. The client benefits from additional services such as access to products that are only available within a portfolio management relationship, access to certain institutional strategies and investment schemes and close collaboration with investment funds providers and the portfolio manager, which enhance the quality of the relevant service to the client and therefore justify the receipt of Monetary Benefits by the Bank in addition to the remuneration paid by the client.

4.1.2 Monetary Benefits paid

The Bank may pay a portion of the Monetary Benefits received or of fees or commissions paid by the client to the Bank, to third parties, such as product distributors, external asset managers or introducers.
The exact amount of such Monetary Benefits paid depends on various factors such as the volume of the investment or the turnover of the individual product. It can amount, in general, to up to 50% of the Monetary Benefits received, or fees or commission paid by the client to the Bank for external asset managers and investment in-

troducers who do not have a custodian bank or do not offer investment services that only a bank may provide. Where the investment product is not only distributed by the Bank, but also "created" within the BSI Group, and where ancillary services such as administration activities are provided by BSI Group, a large portion of the Monetary Benefits paid in relation to the product may remain within the BSI Group.

Such payments of Monetary Benefits enable the third parties to provide high-quality financial services to the client and, in the case of external asset managers, to charge lower management fees to the client for their management services. As a result of such payments of Monetary Benefits by the Bank, the client is able to benefit from such services.

4.2 Non-Monetary Benefits

The Bank may receive Non-Monetary Benefits from product providers as well as financial intermediaries and may provide Non-Monetary Benefits to product distributors, external asset managers, introducers and other third parties. Such Non-Monetary Benefits provided or received by the Bank include, for example, marketing material, financial analyses or product training. In particular, the Bank may receive from financial intermediaries investment research enabling it to develop more sophisticated investment strategies.

The extent of the Non-Monetary Benefit depends on the entity which provides or receives the respective Non-Monetary Benefit.

As the Inducements received or provided by the Bank vary significantly for each individual investment service provided, the information given above only covers the essential terms concerning such Inducements.

Please note that you will obtain, on request, more detailed information on the nature and/or the amount of such fees, commission or benefits, or, where the amount cannot be ascertained, the method of calculating that amount. You may address such a request to your personal Relationship Manager.

5. Specific risks in securities trading

Overview of the main characteristics and risks of financial instruments

The information contained in this document aims to give a brief outline of the main characte-ristics and risks associated with the main financial instruments in which you may invest or BSI Europe S.A. (the "Bank") may invest on your behalf.
Should you have any specific queries or if you are interested in particular financial instruments, we recommend that you contact us if you need further information.
This document does not deal with the tax or legal consequences pertaining to transactions in financial instruments. Therefore, we recommend that you request tailor-made advice on these issues from specialists before making any investment.

5.1 Basic risks

These risks apply to any type of investment. However, depending on the financial instrument concerned, one or several of the risks described in this section may apply cumulatively, thus leading to an overall increase in the level of risk incurred by the investor.

5.1.1 Economic risk

Changes in market economy activity continually influence the prices of financial instruments and exchange rates. Prices fluctuate according to growth or downturns in economic activity. The duration and scope of economic downturns or growth periods vary, as do the repercussions of those variations on the different sectors of the economy. In addition, economic cycles may vary according to the country concerned.
Failure to take these factors into account, as well as erroneous analysis of economic trends when making an investment decision may lead to losses. In particular, one must take into account the impact of the economic trends on the change in investment prices.
Depending, inter alia, on economic trends, good past performance by a financial instrument is no guarantee of good future performance by the same investment. Prices may fall, entailing losses to the investor.
Therefore, an investor must at all times ensure that his investments are appropriate for the economic situation and, if necessary, make changes in his portfolio.

5.1.2 Inflation risk

Currency depreciation may cause financial losses to an investor in relation to his/her investments. In this context, such a loss in the value of the currency may have an influence on the current value of the investor's existing capital, as well as the current yield that should be realised on this capital. One should thus take into account current yields, i.e. the difference between the nominal interest rate and the inflation rate for fixed-rate products.
Therefore, if the inflation rate exceeds the yield generated by the financial instruments (gains in capital and interests), this will lead to a loss in the value of the capital currently invested.

5.1.3 Country risk and transfer risk

A situation could arise where a foreign debtor, although solvent, is unable to pay interest or repay his debts upon maturity, or even defaults completely on his debts due to the unavailability of the foreign currency or to currency exchange controls triggered, for instance, by economic, political or social instability in the country concerned. The ensuing unavailability of the foreign currency or currency exchange controls may lead to defaults on payments for the investors. For financial instruments issued in a foreign currency, therefore, the investor risks receiving payments in a currency which is then no longer convertible due to exchange controls.
Moreover, even in the absence of any crisis, state intervention in some economic sectors (e.g. nationalisation) may have an influence on the value of investors' assets. In certain extreme cases, investors' assets can even be confiscated or frozen by local authorities or investors' rights may be restricted.
On principle, it is not possible to hedge against such risks. However, country ratings published in the financial press may be a useful guide for investors in this respect.
Finally and more generally, instability in the political and/or economic and/or social situation of certain countries may lead to rapid price fluctuations.

5.1.4 Exchange rate risk

Since currency exchange rates fluctuate, there is an exchange rate risk whenever financial instruments are held in a foreign currency. Depending on exchange rates, the same investment may generate profits or l losses.
Moreover, since the activities of companies are, to a greater or lesser extent, associated with exchange rates, fluctuations in the latter are likely to have an impact on the price of the financial instruments they issue.
Specifically, material elements affecting the exchange rate of currencies include a country's inflation rate, the gap between domestic interest rates and foreign rates and between domestic and foreign productivities, the

assessment of economic activity forecasts, the global political situation and the safety of investments in general. Additionally, psychological factors, such as lack of confidence in political leaders, may weaken the exchange rate of a domestic currency.

5.1.5 Liquidity risk

An investor's potential to sell financial instruments at any time at market prices is described as liquidity.
Therefore, insufficient liquidity on the market may prevent an investor from selling off financial instruments at market prices. Fundamentally, a distinction has to be made between lack of liquidity caused by market supply and demand, and that due to the characteristics of the financial instrument or market practices.
Lack of liquidity due to market supply and demand arises when the supply or demand for one financial instrument at a certain price is non-existent or extremely low. Under those circumstances, purchase or sell orders may either not be carried out immediately, and/or only partly (partial execution) and/or at unfavourable conditions. In addition, higher transaction costs may apply.
Lack of liquidity due to the inherent characteristics of the financial instrument or to market practice may occur, for example, as a result of a lengthy transcription procedure for a transaction on registered shares, long performance delays because of market practices or other restrictions on trading, short-term liquidity requirements that cannot be covered quickly enough by the sale of the financial instruments or long lock-in periods before being entitled to execute a transaction, in particular for alternative investment funds.

5.1.6 Psychological risk

Irrational factors may affect the overall performance of prices, such as trends, opinions or rumours, which may cause significant falls in prices, although the financial situation and future outlook of the relevant companies have not worsened.

5.1.7 Credit risk

Credit-financed purchases of financial instruments contain several additional risks. On the one hand, additional collateral may be required – sometimes at very short notice – in the event that the guaranteed credit limit is exceeded due to changes in the price of the collateral. If the investor is unable to provide such collateral, the Bank may be forced to sell deposited financial instruments at an unfavourable time. On the other hand, the loss suffered due to an adverse change in the price of a financial instrument may exceed the initial investment amount.
Fluctuations in the prices of the financial instruments constituting the collateral may negatively affect the capacity to repay loans.
Investors should be aware that, as a result of the leverage effect introduced by the purchase of credit-financed financial instruments, the sensitivity to price fluctuations of those investments will be proportionally more significant.
This means that the chances of both gains and losses increase. The risks inherent in such purchases rise according to the size of the leverage

5.1.8 Interest rate risk

Generally speaking, fluctuations in both short-term and long-term interest rates could have substantial adverse consequences on the prices of financial instruments.

5.1.9 Risk of insolvency of the issuer or of the clearing and settlement system

In the event of the insolvency of the issuer of financial instruments or of the clearing and settlement system on which those instruments are negotiated, an investor may lose part or all of the monies he has invested.

5.1.10 Additional risks on emerging markets

Emerging markets are the markets of countries where the percentage share of income per inhabitant is considered as average or low by the World Bank. In practical terms, this concept encompasses markets established in countries which are characterised by a certain degree of political instability, relatively unpredictable financial markets and economic growth patterns, a financial market which is still at the development stage or a weak economy. This concept of emerging markets encompasses a large number of markets established in South America, Eastern Europe and certain Asian countries.
Generally speaking, the risks identified above are greater on these markets.
Political or economic changes (e.g. inflation, exchange rate) will affect investment prices in emerging markets to a greater extent than in other countries. Similarly, emerging markets usually react more strongly and lastingly in the event of a natural disaster or war.
Moreover, emerging markets often have less structured rules for the clearance and settlement of transactions, with the result that processing errors or default in the delivery of instruments are more likely to occur.
Finally, regulatory supervision of these markets and rules to protect investors, are often weak.

5.1.11 Other basic risks

Information risk

It is the risk of poor investment decisions arising from a lack of information, incomplete information or inaccurate information. This may be due in turn to the use by the investor of unreliable sources, the misinterpretation of originally accurate information by the latter or can be due to communication errors.

Transmission risk

When placing an order, the investor must provide certain details necessary for its execution by the Bank (financial instrument, type of order, volume, execution date, etc.). The more precise the order placed, the smaller the risk of transmission error.

Risks pertaining to transaction costs

The Bank, as well as other domestic or foreign-based parties, may be involved in the execution of an order (e.g. brokers), in which case the fees and commissions of these persons will be passed on to the investor.
An investment becomes profitable only once all these costs have been covered.

5.2 Specific investment risks

5.2.1 Term deposits

These are cash deposits remunerated at a fixed maturity date and rate, determined in advance.

Characteristics

- Yield: interest payment;
- Duration: short-term (up to 4 years), medium-term (4-8 years) or long-term (more than 8 years);
- Interest: interest depends on the terms and conditions of the deposit; e.g. fixed interest for the entire duration or variable interest often linked to financial market rates (e.g. LIBOR or EURIBOR).

Advantages

Depending on market conditions, these products may provide a higher return than other fixed-income products.

Risks

These products are mainly subject to the risks of inflation, exchange and interest rate and insolvency of the counterparty, as described under 5.1 above.

5.2.2 Bonds

A bond is a certificate or evidence of a debt on which the issuing company or governmental body promises to pay the bond-holder 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. At issuance, the par value of one bond represents a fraction of the total amount of the loan. 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. Certain structured products may take the form of a bond and, therefore, these products will be described under the chapter "structured products".
The purchaser of a bond (the creditor) has a claim against the issuer (the debtor).

Characteristics

- Yield: interest payment, possible increases in value (the difference between the purchase/issuance price and the sale/redemption price);
- Duration: short-term (up to 4 years), medium-term (4-8 years) or long-term (more than 8 years);
- Currency: national currency of the investor or foreign currency. Repayment of capital and interest payments may be made in different currencies. In such case, an option can be linked to the bond in order to limit the exchange rate risk;
- Form: individual documents with specific nominal values (which can be delivered to the investor) or collectively represented by a global certificate, which is deposited with a custodian bank;
- Issue price: at par (100% of the nominal value), below par (the issue price is lower than the nominal value) or above par (the issue price is higher than the nominal value);
- Place of issuance: the investor's domestic market or a foreign market;
- Repayment:
  - scheduled repayment: unless otherwise provided for or unless the issuer becomes insolvent, loans are repaid either on the maturity date, or in annual instalments (generally after a lock-in period), or on different dates determined by drawing lots (generally after a lock-in period);
  - unscheduled repayment: the issuer may reserve the right to repay at a date he will determine, at his own discretion, at a later stage;
- Interest: interest depends on the terms and conditions of the loan; e.g. fixed interest for the entire duration or variable interest often linked to financial market rates (e.g. LIBOR or EURIBOR). In this latter case, a minimum and/or maximum rate can be set;
- Particular features (e.g. relationships between the issuer and the investor): set out in the terms and conditions of issue of the relevant bond.

Advantages

Depending on market conditions, these products may provide a higher return than other fixed-income products.

Risks

1. Insolvency risk

The issuer risks becoming temporarily or permanently insolvent, leading to his inability to pay back the interest and/or the principal amount of the loan. The solvency of an issuer may change depending on the development of certain factors during the life of the bond. This may be due, in particular, to the general trend in the economy, changes related to the company, the economic sector of the issuer and/or the relevant country as well as political changes with substantial economic consequences.
This risk is relevant to a greater or lesser degree depending on whether the bonds are issued by a governmental body or a private institution. This risk also relates to the nationality of the issuing governmental body or the type or sector of activity of the private institution which issued the bonds (credit institution, industrial undertaking, etc…) as well as, more generally, the creditworthiness of the latter.
This risk can be more limited if the bonds are collateralised. However, in such a case, the additional protection

granted to the investor will have to be assessed on the basis of the status and creditworthiness of the collateral. To this end, it should be noted that, as a matter of principle, bonds issued by entities considered as safe generally offer lower returns. However, the risk of total loss of the investment is correspondingly lower.
Equally, a deterioration in the issuer's creditworthiness also negatively affects the price of the financial instruments concerned.

2. Interest rate risk
Uncertainty over interest rate trends means that the purchaser of a fixed-rate financial instrument bears the risk that the price of such a financial instrument may fall in the event of a rise in interest rates. Bonds' sensitivity to fluctuations in interest rates depends, in particular, on the period remaining until maturity of the bond and the level of nominal interest rates.

3. Early repayment risk
The issuer of a bond may include a provision allowing him to repay the bondholder early, in the event, for example, of a fall in interest rates on the markets. Such early repayment may have an impact on the yield expected by the investor.

4. Risks specific to bonds redeemable by drawing lots
The maturity date of bonds that are redeemable by lot is difficult to determine, which means that unexpected changes may occur in the yield of such bonds.

5. Risks related to the country of issue
If the bond is issued on a foreign market, it will in principle be governed by the law of the country of issue. The investor must therefore enquire about the possible impact of the applicability of this foreign law on his rights.

6. Risks related to specific types of bonds
Additional risks may exist for certain types of bonds: e.g. floating rate notes, reverse floating rate notes, zero coupon bonds, bonds denominated in a foreign currency, convertible bonds, index or option-linked bonds, subordinated bonds etc…
For these types of bonds, the investor should make inquiries about the risks described in the issuer prospectus and not purchase such financial instruments without ensuring that he/she has understood all risks.
The developments set out below only aim at providing a brief outline on the additional risks incurred by the investor in relation to specific bonds.

Floating rate bonds

Floating rate bonds can take several forms, such as for instance:

- floor floater bonds, which are variable-interest bonds which pay a minimum level of interest. Therefore, in the event that the sum of the reference rate and the spread falls below this level, the investor will receive payment of interest at least at the minimum rate determined in advance. Conversely, for cap floater bonds, the rate of interest paid to the investor is limited to a maximum amount determined in advance.
  For these bonds, it is not possible to anticipate, as of their issue, the actual yield of the investment since this varies according to fluctuations in market rates;
- for certain variable-interest bonds, the interest rate moves in the opposite direction to market rates (i.e. reverse floating rate bonds). For these medium- or long-term bonds, the interest rate payable to the investor is calculated according to the difference between a fixed rate of interest and a reference rate (e.g. 16% minus LIBOR). This means that the investor's interest income rises when the reference rate falls. The price of these bonds is usually subject to higher market fluctuations than the fixed-rate bonds with the same maturity;
- there are also convertible floating rate bonds which give the investor or the issuer (depending on the terms and conditions of the bonds) the right to convert the note into a normal fixed-interest bond. If the issuer reserves this right, the actual yield of the bond may be lower than that expected by the investor.

Zero-coupon

Zero-coupon do not have interest coupons attached. Instead of periodic interest payments, the investor receives the difference between the redemption price and the issue price (in addition to the repayment of the principal amount). Such bonds are usually issued at a discount to their nominal value, and redeemed on maturity at par. The size of the discount granted to the investor depends on the maturity of the bond, the borrower's creditworthiness and prevailing market interest rates.
Hence, such bonds offer investors a fixed lump-sum payment at a future date if the bond is held until maturity (which may have various tax implications depending on the country concerned). However, if the bond is sold before maturity, the investor will only receive payment of the sale price of the bond.
Therefore, if market interest rates increase, the price of these bonds falls more sharply than for other bonds with the same maturity and credit rating. Moreover, in the case of foreign currency-denominated Zero-coupon, the exchange rate risk is greater because interest payments are not made on a regular basis over the life of the bond; payment is made in a lump sum at a future date determined in advance.

Combined-interest bonds or step-up bonds

For combined-interest bonds or step-up bonds, the investor does not receive interest payments at a single, fixed rate over the entire life of the bond. However, such bonds are similar to fixed-rate bonds insofar as the interest rate is determined in advance and does not depend on fluctuations in market rates. Instead, the rate of interest only changes during the term of the bond, following a pattern agreed at the time of issue.

In the case of combined-interest bonds, there is no coupon for the first few years of the life of the bond but an above-average coupon will be paid to the investor for the remaining years. These bonds are usually issued and redeemed at par.
With step-up bonds, a relatively low coupon is paid initially, followed by a very high one paid to the investor for the following years. These bonds are usually issued and redeemed at par.

Phased interest rate bonds

These bonds are a hybrid of fixed and variable-interest notes. They usually have a maturity of 10 years, and pay a fixed coupon for the first years. For a period of several years after that, the investor will receive interest calculated on the basis of a variable interest rate in line with market rates. For the last years of the life of the bond, the bond reverts to paying the investor a fixed rate of interest.

Index-linked bonds

For these bonds, the redemption amount and/or interest payments are determined on the basis of the level of an index or of a managed account determined in advance - at redemption or on the interest payment date and thus are not fixed. These bonds are often Zero-coupon.
Such bonds are usually issued in two "tranches": bull bonds (bonds which appreciate in value if the index rises) and bear bonds (bonds which appreciate in value if the index falls). The investor runs the risk of price losses if the value of the index falls (bull bonds) or if the value of the index rises (bear bonds).

Subordinated bonds

For these bonds, investors should enquire about the ranking of the debenture compared to the issuer's other debentures since, in the event of bankruptcy of the issuer, these bonds will only be reimbursed after repayment of all higher ranked creditors (preferential and pari passu bonds).
However, generally, the better the position of the creditor in the event of insolvency, the lower the return of the bond.

Convertible/warrant bonds

In this case, the investor is granted the right to exchange the bonds, at a specific time or within a specific period, for shares in the issuer at a ratio determined in advance. There is usually a minimum lock-in period during which an investor cannot exercise his right of conversion. In the event that the right of conversion is not exercised, the bonds remain fixed-interest notes, repayable at par on maturity.
As they offer a conversion right, such bonds usually offer a lower interest rate than ordinary bonds. The price of these bonds is essentially determined by the price of the underlying shares. If the price of the shares falls, the price of the bonds also falls. Therefore, the risk of price losses is higher than for bonds without conversion rights (but usually lower than the risk of price losses associated with direct investment in the relevant shares).
There are also bonds which give the investor the right to subscribe for shares, in addition to the bond and not as an alternative. This subscription right is certificated by a warrant which is detachable from the bond. This warrant can be traded separately. The shares in the issuer can be purchased by the investor on surrender of the warrant, according to terms agreed in advance. In addition, the investor continues to hold the bond until maturity. As for bonds with conversion rights, the periodic interest payments are usually relatively low. Moreover, the price of such bonds, with the warrant attached, will equally track the price of the underlying shares. If the bonds are without the warrant attached, their amount to traditional bonds and, therefore, their price is mainly determined by market rates.
Certain special forms of the bonds described in the preceding paragraph give the holder of the warrant the right to buy or sell another bond determined in advance at a fixed price.

5.2.3 Shares

A share is a certificate evidencing the rights of the shareholder, to whom it is granted, in a company. Share may take bearer or registered form. One share of stock represents a fraction of the share capital of a company.

Characteristics

- Yield: dividend payments and any increase (or decrease) in the value of the financial instrument may increase;
- Shareholder's rights: financial and ownership rights; these rights are determined by law and the articles of incorporation of the issuing company;
- Transferability: unless otherwise provided for by law, the transfer of bearer shares does not, in principle, require any formalities, unlike the transfer of registered shares, which is often subject to limitations.

Advantages

In principle, the investor has voting rights and shares the profits of the company. He may equally obtain higher returns than for investments in term deposits or bonds.

Risks

1. Entrepreneurial risk

A shareholder is not a creditor of the company, but makes a capital contribution and, as such, has co-ownership rights in the corporation. Consequently, he is participating in the development of the company as well as in the associated opportunities and risks, which may lead to unexpected fluctuations in the value of such investment. An extreme situation would be if the issuing company were to be declared bankrupt, leading to the complete loss of the invested amount.

2. Price fluctuation risk

Share prices may undergo unforeseeable price fluctuations causing risks of losses. Increases and decreases in prices in the short, medium and long term alternate, and it is not possible to determine the duration of these cycles. In principle, the general market risk must be distinguished from the specific risk attached to the company itself. Both risks influence the performance of share prices.

3. Dividend risk
The dividend of a share mainly depends on the profit made by the issuing company. Therefore, if profit is low, or the company makes a loss, dividend payments could be reduced or no payments made.

5.2.4 Bonus certificates

Bonus certificates represent patrimonial rights as defined in the terms and conditions of issue of these bonds.

Characteristics

In general, they come in the form of par value debt instruments that entitle their holder to a portion of the company's profit.
In principle, fixed or variable distribution bonus certificates should be distinguished from bonus certificates with option or conversion right.

Risks

1. Non-distribution or reduction of repayment
In the case of losses by the issuing company, interest payments may be halted if no minimal interest payment has been provided for. In addition, the repayment of the principal amount may be reduced.

2. Issuer risk
The bankruptcy of the issuer means that the investor loses all his invested funds.

5.2.5 Investment funds

An investment fund is a company or an organised joint ownership that collects funds from a certain number of investors and reinvests those funds according to the principle of risk spreading and to pass on the benefits of its asset management to stockholders or members.

Characteristics

- Open-ended funds: in an open-ended fund, the number of shares/units and, consequently, of participants cannot, in principle, be determined in advance. The fund may issue new shares/units or redeem existing shares/units. The fund is obliged to redeem shares/units to investors, at its own expense, at the agreed redemption price and in line with contractual provisions;
- Closed-ended funds: in a closed-ended fund, the issue of shares/units is limited to a number determined in advance. As opposed to open-ended funds, the redemption of the shares/units by the fund is not mandatory. Shares/units may only be sold to third parties or, in some cases, on the market. The price of the shares/units depends on market supply and demand.

Advantages

The holder of shares/units receives part of the fund's income.
As a result of the diversification of the underlying investments made by the fund, the opportunities for profits increase or, at least, the risk of losses is reduced in comparison with investment in a single underlying share.
For the investments made by the fund, the latter usually benefits from better terms (in particular for costs) than those which would apply to the investor if he invested directly in the same products.

Risks

1. Management risk
Since the return of investments made by a fund depends, among other factors, on the expertise of the managers and on the quality of their decisions, errors in the management of the fund may lead to losses or loss of profits.

2. Risk of a drop in share/unit prices
Investment fund shares/units bear the risk of a fall in their prices, which reflects the decrease in value of the financial instruments or currencies that comprise the asset portfolio of the fund, all other things remaining equal. The higher the diversification of the investments made by the fund, the lower at least theoretically, the risk of losses. Conversely, risks are more important if the fund creates more specialised and less diversified investments. It is therefore important to be aware of the general and specific risks attached to financial instruments and currencies contained in the fund's portfolio.
The investor must find out about the risks specific to each fund by consulting, among other things, the relevant prospectus.

5.2.6 Derivatives

Derivatives are financial instruments, the value of which varies according to the value of an underlying; the underlying may be the price of a share, a market index, an interest rate, a currency, the price of raw materials or even another derivative.
Concerning derivatives, a distinction must be made in particular between:
- a. option transactions, which give one of the parties the right, but not the obligation, to enter into a transaction. One party (the seller of the option) is irrevocably bound to perform while the other (the purchaser of the option) is free to exercise the option or not;
- b. forward transactions, where the parties enter into a transaction which will have to be performed at a specified date in the future. In a forward transaction, parties bind themselves irrevocably to perform the transaction concluded between them on the specified date.

Transactions on such products trigger a higher risk of losses and can even lead to the complete loss of the funds invested initially. Since such transactions can lead to margin calls over the life of the product, investors must ensure that they have sufficient liquid assets before entering into such transactions.

a. Option transactions

Options are derivative instruments, the value of which tracks the evolution of the value of the underlying asset. Following payment of a premium to his counterpart, the seller of the option, the purchaser receives the right to purchase (call) or to sell (put) the underlying asset at maturity or during a certain period, for a strike price determined in advance.

The characteristics of the option can be standardised or defined on a case-by-case basis between the purchaser and the seller.

Characteristics

- Duration: the duration of the option starts from the day of the subscription until the day of the maturity of the option right;
- Link between the option and the underlying asset: this link underlines the number of units of the underlying asset that the holder of the option has the right to purchase (call) or to sell (put) by exercising his option right;
- Strike price: the strike price is equal to the price agreed upon earlier, at which the holder of the option may purchase or sell the underlying asset when he exercises his option right;
- Strike date: options which can be exercised on any trading day up to the maturity date are called "American style" options. Options which can be exercised only on their maturity date are called "European style" options. The latter can nonetheless be traded on the secondary market before their maturity if the market is liquid;
- Conditions of exercise: the option can be with physical settlement, in which case the buyer of a call option can demand physical delivery of the underlying asset against payment of the strike price or the buyer of a put option can deliver to the seller of the option the underlying asset, against payment of the strike price by the seller. The option can also be with cash settlement, in which case the difference between the strike price and the market value of the underlying asset is due, provided nonetheless that the option is "in-the-money";
- "In-the-money", "out-of-the-money" and "at-the-money" options:
  A call option is "in-the-money" if the market value of the underlying is higher than the strike price. Conversely, a call option is "out-of-the-money" if the current market value of the underlying asset is lower than the strike price.
  A put option is "in-the-money" if the market value of the underlying asset is lower than the strike price. Conversely, a put option is "out-of-the-money" if the current market value of the underlying asset is higher than the strike price.
  When the market value and the strike price are the same, the option is "in-the-money".
- Price of the option: the price of an option depends on its intrinsic value as well as on a variety of factors (time value), in particular the remaining life of the option and the volatility of the underlying asset. The time value reflects the possibility that the option will be "in-the-money". Therefore, this latter value is higher for long duration options with a very volatile underlying asset.
- Margin: over the lifetime of an option, the seller must provide as collateral, either the corresponding amount of the underlying asset or another form of collateral. The margin is determined by the Bank. Markets stipulate a minimum margin for listed options. If the margin cover provided by the investor proves to be insufficient, the Bank is entitled to request additional collateral, sometimes at a very short notice;
- Form: Option certificates (warrants, listed options): the rights and obligations associated with the relevant option are securitised. They are sometimes listed on the market.
  Traded options: these are standardised options for which the rights and obligations are not securitised and which are traded on certain specific markets.
  Over-the-counter (OTC) options: these are traded outside a stock market or agreed directly off-market between the parties. Their level of standardisation depends on market practices. They can also be tailor-made to meet investors' needs. This type of option is not listed and rarely takes the form of a certificate;
- Leverage: any change in the price of the underlying asset causes a proportionally higher change in the price of the option right;
- Purchase of a call or a put: the buyer of a call option speculates on a rise of the price of the underlying over the life of the option, which causes an increase in the value of his option right. Conversely, the buyer of a put option benefits from a drop in the price of the underlying;
- Sale of a call or a put: the seller of a call option anticipates price drops of the underlying asset whereas the seller of a put profits from a rise in the value of the underlying asset.
- Information notices.

In addition to that stated here, the attention of investors is specifically drawn to the information notices relating to option trading, issued by the markets on which such options are traded, and in particular the following documents:

- Characteristics and Risks of Standardised Options: notice relating to options traded on the Chicago Board Options Exchange, available on the Internet website www.cboe.com;
- The information notice (visa COB no. 00-1228 of 4 July 2000) relating to options traded on the Euronext MONEP market (market for the options traded in Paris), on the Internet website www.monep.fr.

Advantages

Over the lifetime of the option, the owner of the option is granted the right to purchase or sell certain assets. The opportunities for profits could be significant due to the leverage effect linked to the use of an underlying asset. For the counterparty, such a transaction predominantly means that the return on an existing position will be increased.

Risks

1. Price risk

Options may be traded on markets or over-the-counter (OTC), and follow the law of supply and demand. An important point for the determination of the price of an option consists, on the one hand in determining whether there is a sufficient liquidity of the market for the relevant option, and on the other hand in determining the actual or expected trend in the price of the corresponding underlying asset. A call option loses value when the price of the underlying asset decreases, whereas the opposite is true for put options. The price of an option does not only depend on the price fluctuations of the underlying asset; a series of other factors come into play, such as the duration of the option or the frequency and intensity of the fluctuations in the value of the underlying asset (volatility). Consequently, the value of the option may fall even if the price of the underlying remains unchanged.

2. Leverage risk

Owing to the leverage effect, variations in the price of the option are generally higher than changes in the price of the underlying asset. Thus, during the lifetime of the option, both opportunities for gains and the risk of losses are higher for the holder of an option. The risk attached to the purchase of an option increases with the size of the leverage effect of the relevant option.

3. Purchase of an option

The purchase of an option represents a highly volatile investment and the likelihood that an option reaches maturity without any value is relatively high. In this case, the investor loses all the funds used for the payment of the initial premium as well as commission. Following the purchase of an option, the investor can maintain his position until maturity, he can enter into an opposite transaction or, for "American-style" options, exercise the option before maturity.
The exercise of the option may either entail the payment in cash of a differential amount or the purchase or delivery of the underlying asset. If the object of the option consists of futures contracts, its exercise leads to the taking of a position in futures, which presupposes the acceptance of some obligations concerning security margins.

4. Sale of an option

The sale of an option, generally speaking, involves higher risk-taking than its purchase.
Even if the premium obtained for writing an option is fixed, the losses that the seller may incur are potentially unlimited.
If market prices of the underlying asset decline, the seller of the option will have to adapt his security margins in order to maintain his position. If the sold option is an "American-style" option, the seller may be required at any moment to settle the transaction in cash or to purchase or deliver the underlying asset. If the underlying of the option consists of futures contracts, the seller will take a position in futures and will have to comply with obligations concerning security margins.
The seller's risk exposure may be reduced by keeping a position in the underlying asset (financial instruments, index or other) corresponding to the sold option.

5. Purchase of the underlying asset in the case of a short sale

The seller of an uncovered call option does not have a corresponding quantity of the underlying asset at his disposal upon the conclusion of the contract (short sale).
In the case of options with physical settlement, the potential loss for the investor amounts to the difference between the strike price paid for the delivery of the underlying assets in case the option right is exercised and the price he will have to pay to acquire the relevant underlying asset. For options with cash settlement, the risk of loss for the investor amounts to the difference between the strike price and the market value of the underlying. Since the market value of the underlying can rise to well above the strike price when exercising the option, the risk of loss for the investor cannot be determined in advance and is, theoretically at least, unlimited.
This risk is more significant for "American-style" options, which may be exercised at any time and thus at a highly unfavourable time for the seller of the option.
Another risk for the investor selling the option is that he is unable to obtain the requested underlying when the option is exercised or is able to obtain it only at very unfavourable conditions (in particular for costs) due to the market situation.
In this context, note that the potential loss may also be greater than the value of the margin cover provided by the investor.

6. Specific risks associated with options traded over-the-counter (OTC)

A position arising from the purchase or sale of an OTC option can only be closed with the approval of the counterparty.

7. Specific risks associated with combined options

A combination consists of the conclusion of two or more option contracts based on the same underlying, which differs in the option type or the characteristics of the option. The number of possible combinations is important. Therefore, the risks involved by any particular combination cannot be described in this document. Consequently, the investor must ascertain the specific risks associated with the combination he has in mind.

Note, however, that for any combination, the cancellation, at a certain point, of one or more options may entail substantial changes in the risk position of the investor.

8. Specific risks associated with "exotic" options
These options are subject to additional conditions or agreements. Their payment structures cannot be obtained by using a combination of transactions.
They can take the form of tailor-made OTC options or warrants.
The range of exotic options is unlimited so that it is impossible to describe the risks involved in each "exotic" option in this document.
However, the most common "exotic" options involve the following additional risks compared to normal options.

Options depending on the overall performance of the underlying

The market value of the underlying is important not only on the expiration or exercise date of the option. The investor must take into account potential fluctuations in the market value of the underlying during the whole life of the option in order to assess the possibilities of gains or the risk of losses.

1. Barrier options
The rights attached to such options arise (knock-in options) or expire (knock-out options) fully and irrevocably only when the market value of the underlying reaches a fixed threshold during a period determined in advance.

2. Payout options
Payout options grant the right to payment of a fixed amount, agreed in advance:
- Digital option
  Payment occurs only if, upon maturity, the market value of the underlying is above (digital call) or below (digital put) the strike price. In this case the option is "in-the-money", and the seller of the option must pay the amount initially agreed.
- Lock-in option
  Payment occurs only if, during the life of the option or a specified time period during its lifetime, the market value of the underlying reaches a predetermined threshold. In deed, when the fixed threshold is reached, the seller of the option must pay the amount initially agreed on, irrespective of the subsequent evolution of the price of the underlying.
- Lock-out options
  The fixed payment only occurs if the market value of the underlying does not reach a predetermined reshold or thresholds during the whole life of the option or a specified time period during its lifetime. In this case, whenever the fixed threshold or thresholds are reached, the option becomes invalid and thus loses its value, irrespective of the subsequent price trend of the underlying.

3. Asian options
For these options, an average value is derived from the market value of the underlying over a specified time period. This average is used to fix the underlying's value which must be delivered (average-rate option) or the strike price which must be paid (average-strike option). The calculation of an average value for the underlying can result in:
- average-rate option: the value of the option on its maturity date being lower for the buyer and considerably higher for the seller than the difference between the strike price and the market value of the underlying upon maturity;
- average-strike option: the strike price of a call option being higher than the price originally agreed or the strike price of a put option, being lower than the price originally agreed.

4. Lookback options
The market value of the underlying is recorded periodically over a specified time period. For a strike lookback option, the lowest value (call option) or the highest value (put option) of the underlying becomes the strike price.
For a price lookback option, the strike price remains unchanged but the highest value (call option) or the lowest value (put option) is used in calculating the value of the underlying.
Therefore, the risk is that the calculated strike price or calculated value of the underlying varies considerably from the prevailing market prices on the maturity date. Consequently, in the above mentioned cases, the seller must be aware that upon calculation or exercise of the right, the most unfavourable strike price or market value will be applied.

5. Contingent options
Buyers of such options must only pay the premium if the market value of the underlying reaches or exceeds the strike price during the life of the option ("American-style" option) or on the maturity date ("European-style" option).
The risk is therefore that the investor will be forced to pay the entire premium even if the option is only just "in-the-money" or "at-the-money".

6. Cliquet and ladder options
- Cliquet options: the strike price is periodically amended for the following period – in general at regular intervals – to bring it into line with the market value of the underlying. An intrinsic value is then calculated, if applicable, and accumulated over the lifetime of the option.
- Ladder options: in this case, amendments are made periodically, only when the underlying reaches specified market prices. Normally, only the higher market value is taken into account.
  On the maturity date, the seller of a cliquet option is required to pay all the accumulated lock-in market val-

ues in addition to any intrinsic value of the option, and the seller of a ladder option must pay the highest lock-in market value. For the seller, the amount to be paid can thus be considerably higher than the option's intrinsic value on the maturity date.

Options on several underlyings

1. Spread and out performance options
Both types of option are based on two underlyings.
With a spread option, the absolute difference in movement between the value of the two underlying forms the basis for calculating the option's value.

With an out performance option, the relative difference, i.e. the percentage improvement of the value of one underlying over the other, is taken into account.
The risk is that, despite a positive performance of the market value of both underlyings, the performance difference between the underlyings may be equal or perhaps lower, thus having an impact on the value of the option.

2. Compound options
The underlying of such options are options.
Such products can consequently involve large leverage effects, which may trigger important financial obligations.

b. Futures/Forward transactions

Futures are contracts traded on a market and standardised as regards the quantity of the underlying asset and the maturity date of the transaction. Over-the-counter (OTC) or forward contracts are contracts that are not traded on a market and which may be standardised or individually negotiated between purchaser and seller.

Characteristics

- Initial required margin: whether for a future purchase or sale of an underlying asset, an initial margin is fixed when the contract is concluded. This margin is generally expressed as a percentage of the value of the contract;
- Variation margin: during the whole life of the contract, a variation margin is periodically determined and required from the investor. It represents the accounting profit or loss, derived from the change in the contractual price or the price of the underlying asset. The variation margin may exceed the initial required margin by far. The computation method for the variation margin, whether during the life of the contract or at closing, depends on the stock market rules and the specific provisions of each contract. The investor must immediately provide the Bank with the variation margin at the latter's request;
- Liquidation: in general, the investor may, at any time during the life of the contract, sell off or liquidate the contract before maturity, either by selling the contract or by entering into an opposite contract as regards the delivery and reception obligations. In the latter case, the provisions of the opposite contract will be such that the delivery and reception obligations arising from both contracts cancel one another out.
  The liquidation ends the risk positions incurred: gains and losses accumulated up to liquidation are realised;
- Settlement: contracts that have not been sold off up to settlement must be performed by the relevant parties. Contracts with tangible property assets as the underlying may be performed by effective delivery of the assets as well as by cash settlement (although physical delivery settlement is more common) while contracts with reference rates as the underlying (with the exception of currencies) cannot be performed by actual delivery of the underlying. In the event of an effective delivery of the underlying, the contractual obligations must be performed in full, whereas for cash settlement contracts, only the difference between the price agreed at the time the contract was concluded and the market price on performance of the contract is payable.
  Therefore, investors need more available funds for contracts providing for the actual delivery of the underlying asset than for contracts providing for cash settlement.

Advantages

There are significant opportunities to realise gains, depending on the market value of the underlying on maturity, especially since the principal amount originally invested is low. Such products may also enable investors to hedge existing positions.

Risks

1. Change in the value of the contract or underlying asset
The investor incurs a risk if the trend in the current value of the contract or the underlying is not in line with that expected by the investor when concluding the contract.
In case of a rise in the price of the contract or the underlying, the forward seller will have to deliver the underlying asset at the originally agreed price, which may be far lower than the current price. For the seller, the risk is equal to the difference between the price agreed when the contract was concluded and the market value on the maturity date. As the rise in the market value could theoretically be limitless, the potential for losses for the seller is unlimited and may considerably exceed the required margins.
In the event that the value of the contract or the underlying asset decreases, the forward purchaser will still have to accept the underlying asset at the price agreed in the contract which could potentially be much higher than the current market value. Therefore, the risk to the buyer consists of the difference between the price agreed at the time the contract was concluded and the market value on the maturity date. Thus, the maximum that the purchaser may lose is the initially agreed price. This loss may however far exceed the required margins.
Transactions are regularly evaluated (mark-to-market) and the investor will need to have permanently at his disposal a sufficient margin cover. In the event that the mar-

gin becomes insufficient during life of the transaction, the investor will have to provide a variation margin at very short notice, failing which, the transaction will be liquidated before expiration, generally at a loss.

2. Difficult or impossible sell off
In order to limit excessive price fluctuations, a stock market may fix price limits for certain contracts. In such cases, the investor has to keep in mind that, whenever a price limit is reached, it may be very difficult if not momentarily impossible to sell off the contract. Thus, each investor should, before entering into a forward contract, ascertain the existence of such limits.
It will not always be possible (depending on the market and the terms and conditions of the transaction) to sell off contracts at any given moment in order to avoid or reduce the risks of a pending transaction.
Stop-loss orders will only, if at all, be executed during office hours of the Bank. They do not necessarily enable losses to be limited to the indicated amount, but will be performed once the threshold is reached in the market, at which time they turn into an order to perform such a transaction at the then current market price.

3. Purchase of the underlying in the case of a short sale
To sell an underlying on a forward basis without owning it at the time the contract is concluded (short sale) involves the risk that the seller will have to buy the underlying asset at an extremely unfavourable market price in order to be able, upon maturity, to perform his obligation to effectively deliver the underlying.

4. Specific risks associated with over-the-counter transactions (OTC)
For standardised OTC transactions, the market is, in general, transparent and liquid. Therefore, it is normally possible to sell off contracts. However, no market exists for OTC transactions agreed individually between the purchaser and seller. For these reasons, closing-out is only possible with the agreement of the other party.

5. Specific risks associated with forward foreign exchange products
A forward foreign exchange transaction enables a currency to be sold or purchased at a future date at a price fixed when the contract is concluded.
This type of investment may be used by the investor to eliminate the currency risk. Moreover, there is no premium to be paid on conclusion of the contract.
The main risk for the investor is the loss of profit in the event that the effective trend in market rates is more favourable than that anticipated when concluding the contract.

6. Specific risks associated with combined transactions
There is a significant number of possible combinations. Therefore, the risks involved by any particular combination cannot be described in this document. Consequently, the investor must ascertain the specific risks associated with the combination he has in mind.
Note, however, that, in general, the risks associated with such combined transactions could vary when elements of this combination are sold off.

5.2.7 Structured products or EMTN
Structured products are combinations of two or more financial instruments that together form a new investment product. At least one must be a derivative product.
Structured products with capital protection are the most frequently traded.
Such products can be traded either on the market or over-the-counter (OTC).
Owing to the large number of possible combinations, each structured product has its own risks since the risks associated with each of the elements of this combination can be reduced, eliminated or enhanced accordingly. Consequently, the investor must ascertain the specific risks associated with the structured product in question. Such information is available, for instance, in the commercial brochures or term sheets describing the product.

a. Structured products with capital protection (e.g. GROI, PIP, PEP, GRIP)

Characteristics
- Two elements: such products generally consist of two elements: a fixed-income investment (e.g. bond or money market investment) and an option or combination of options. This enables the investor to participate in the price movements of one or more underlying assets while at the same time limiting potential losses. The capital protection component may, if applicable, only cover a portion of the capital invested. Moreover, the participation and protection elements can be separated into two separate components in order to ensure the independency of the two components or even to enable them to be sold separately;
- Capital: fully or partially secured (upon maturity). The capital protection component determines how much of the nominal value of the structured product will be paid out to the investor, irrespective of any price movements in the option component;
- Yield: the option component or direct investment in a risky underlying asset determines how and to what extent the investor can benefit from price movements in the underlying. Therefore, this component determines the potential return over and above the capital protection component;
- Flexibility: these products can be tailored to suit the needs of each client and are adaptable to all types of underlyings.

Advantages
Such products enable the investor to invest on a market while reducing the risk of losing capital which would exist if he invested directly on the same market. Returns may

be higher than those of monetary or bond investments with an equivalent level of protection.

Risks

1. Risks associated with the capital protection component
The capital protection is linked to the nominal value of the product rather than its issue price or purchase price on a secondary market. Therefore, the investor benefits from a guarantee only up to the nominal value of the product with the result that capital protection does not necessarily mean 100% repayment of the capital invested. Consequently, the protection will be reduced if the issue/purchase price is higher than the nominal value and, conversely, increases if the issue/purchase price is lower than the nominal value, especially if the product has been purchased at a price which was different from par or after the original issue. The level of protection depends on the creditworthiness of the issuer. The capital is therefore protected only if the issuer of the protection can meet his obligations.
The maximum loss is thus limited to the difference between the purchase price and the amount of the capital protection upon maturity. However, over the life of the product, its price can fall below the level of the capital protection amount, which increases the risk of loss in case of sale prior to expiration. Capital protection is only guaranteed for the investor if the latter holds on to the product until maturity but is not ensured if early repayment is requested.
Upon maturity, if the capital is not guaranteed up to 100%, the investor will not be repaid the full amount originally invested.

2. Risks at the level of the option/direct investment component
Depending on price movements in financial markets, this component can expire without value. The risks associated with this component are the same as the risks associated with the relevant option or option combination or direct investment used.
Due to the existence of capital protection, the investor may obtain a lower return than the return he would have obtained if he had invested directly in the underlying.

3. Liquidity risk
The liquidity of the investment is usually ensured only above a certain amount, subject most of the time to a bid/offer spread and/or a penalty in the event that the product is not held until maturity.

b. Structured products without capital protection: convertible reverse or discount certificate

Characteristics

- Term product: the investor receives a guaranteed coupon in a given currency but accepts a risk on his capital on maturity;
- Underlying assets: shares, indexes, baskets, etc.;
- Capital: protected if the market value of the underlying is not lower than the strike price on maturity;
- Repayment: in cash or by delivery of the underlying, at a strike price determined in advance, if this strike price has fallen or been exceeded. On the maturity date, if the price of the underlying asset is higher than the strike price, the investor receives the guaranteed coupon plus 100% of the capital initially invested (in cash). If the price of the underlying asset is lower than the strike price, the investor receives the guaranteed coupon plus the underlying asset at the strike price;
- Flexibility: such products can be adapted to all types of underlyings;
- Discount certificate: in this case, the investor receives the coupon only upon maturity but originally purchases this product at a discount.

Advantages

Incomes are higher than for investments in money market products.
They are short term investments and it is therefore easier to assess potential earnings.

Risks

1. Capital risks
Capital protection is not guaranteed if the investor receives the underlying asset instead of the capital invested upon maturity.
The capital risk is closely linked to price movements in the underlying asset.

2. Liquidity risk
The liquidity of the investment is usually only guaranteed above a certain amount.

3. Exchange rate risk
For products denominated in currencies other than that of the underlying asset, the investor is exposed to an additional exchange risk.

c. Specific cases relating to some credit derivative instruments

Credit-linked notes ("CLN")

Characteristics

An investment in a CLN can be compared to a direct investment in a floating rate note issued by the same entity.

Risks

1. Dual risk
An investor in a CLN bears the credit risk of both the issuer of the CLN itself and of the underlying credit reference entity/ies. If there is a credit event, the investor receives either a debt instrument (i.e. a bond or a loan) issued or guaranteed by the relevant credit reference entity or a cash settlement amount linked to the market price of such debt instrument, calculated on the basis of the relevant credit event.
2. Risk enhanced by the scope of the notion of "credit

event"
The term "credit event" is defined in broad terms and encompasses more than simply a bond default of the relevant reference entity. The concept encompasses, for example, an extension of the repayment date of a loan or a decrease in the rate of interest payable on such a loan. Therefore, the holder of a CLN can suffer a loss due to a credit event even though a traditional bond default did not occur. In other words, the probability of a credit event occurring is higher than the probability that a bond default will occur.

3. Scope of the risk of loss
A credit event might result in a CLN suffering a greater loss than the average loss suffered by bonds from that same reference entity since the issuer of the CLN generally has a wider choice of debt instruments to be delivered on a default and could choose to deliver the lowest-priced debt instrument. This risk is mitigated in some structures through pre-defined recovery rates, which determine the loss in advance in the case of a credit event. Moreover, a higher loss may occur as a result of a delivery of a bond or loan with a longer duration than that of the CLN itself, or in the event of a valuation using such a bond/loan. However, the major rating agencies are aware of these two characteristics and incorporate them into their ratings of CLNs.

Collateralised debt obligations (CDO)

Characteristics
Collateralised debt obligations are structured products that are also based on an underlying basket or portfolio of debt instruments, which can be bonds, loans and/or credit default swaps.
A CDO is usually divided into several tranches providing different levels of risk exposure for the basket of underlying debt instruments. Commonly, the most junior tranche is an "own funds" tranche and the tranches then rise in increasing seniority and attract correspondingly higher credit ratings.

Advantages
The investor gains exposure through these synthetic structures to underlying credits which are not always available through direct bond investments.

Risks
1. Risks related to the tranche system
Losses on the portfolio are borne firstly by the holders of the "own funds" tranche and subsequently by the holders of the various tranches in order of seniority. The holders of a senior tranche only incur a loss due to a relevant credit event if all the "own funds" and the capital of the more junior tranches has been lost. Therefore, tranches which are not "own funds" tranches have some degree of protection against losses whereas the "own funds" tranche and the more junior tranches represent a leveraged exposure to the fluctuations of the underlying portfolio.
Credit events on a small portion of the underlying portfolio can lead to significant or total loss of the capital invested in the "own funds" tranche and the more junior tranches.

2. Risks related to the long-term nature of the product
The value of any credit derivative can vary significantly before maturity depending on a number of factors including, for instance, the occurrence of credit events and movements of credit spreads in the portfolio.
Moreover, like any debt instrument, the initial rating of any credit derivative can be upgraded or downgraded. A credit rating of a particular instrument reflects the (long-term) default risk of that instrument until it matures, and not the short-term market risk. Investors in a credit derivative should generally have a long-term investment perspective and the ability to hold the product until maturity.

3. Risk related to low liquidity
Such instruments are generally illiquid even though a secondary market may exist.

5.2.8 Synthetic products

Synthetic products – essentially covered options and certificates – are characterised by their identical or similar profit and loss structures when compared with specific traditional financial instruments (shares or bonds). They result from the combination of two or several financial instruments in the same product. Basket certificates, based on a specific number of selected shares, are one typical example.
Synthetic products can be traded either on a market or over-the-counter (OTC).
Owing to the large number of possible combinations, each synthetic product has its own risks. However, generally, the risks associated with synthetic products are not always the same as the risks associated with the financial instruments they contain. Consequently, before investing in such products, the investor must make thorough inquiries about these specific risks, for instance by consulting the product description.

Covered options (e.g. BLOC warrants, DOCUs, GOALs)

Characteristics
– Reduced loss: when purchasing a covered option, the investor purchases an underlying asset (share, bond or currency) and, at the same time, writes a call option on that same asset. In return, the investor is paid a premium. The latter thus reduces his loss in the event that the price of the underlying falls;
– Limited potential gain: the potential return from any increase in the underlying asset's market value is limited to gains up to the option's strike price;
– Collateral: for traditional covered options, the investor must pledge the underlying asset as collateral, thus

becoming a passive investor;
- Synthetic covered options: this type of product is based on the idea of duplicating or reproducing traditional covered options. However, this duplication is achieved by means of a single transaction. Both the purchase of the underlying asset and the writing of the call option are carried out synthetically using derivatives. The purchase price of such a product is identical to that of the underlying minus the premium received for the sale of the call option. Hence, the synthetic product is sold more cheaply than its underlying;
- Settlement: either cash settlement or physical delivery of the underlying is possible on maturity: If the market value of the underlying is higher than the strike price, the investor is paid a specified cash amount as settlement. If, however, it is lower than the strike price, the investor receives physical delivery of the underlying asset.

Advantages
Any loss in the price of the underlying triggers a lower loss than that which could be suffered in the event of direct investment in the underlying asset, via the writing of a call option (traditional covered option) or if the returns from the sale of a call option are included in the product price (synthetic covered option).

Risks
Unlike structured products with capital protection, synthetic covered options do not contain a hedge against losses in the market value of the underlying.
Therefore, if the price of the underlying increases and, on maturity, is higher than the strike price of the option, the investor will receive the price originally agreed, in the form of a cash payment. If, on maturity, the price of the underlying is lower than the price envisaged by the investor when purchasing the product, the yield of such product may be lower than the return of an investment on the money market with the same maturity.
If, on maturity, the price of the underlying is equal to or lower than the strike price of the option, the investor will receive the underlying. The potential loss that may be suffered by the investor is thus linked to a possible fall in the market value of the underlying up to maturity. The risk of loss is therefore unlimited, as if the investor had invested directly in the underlying asset.
However, the premium of the option mitigates the consequences of a potential loss of profit in relation to the underlying.

Certificates/EMTN (e.g. PERLES)

Characteristics
- Diversification: a certificate entitles an investor to purchase a right which is based on several underlyings or has a value derived from several indicators;
- Main types of certificates:
  - index certificates: these reflect a whole market, as they are based on an official index (e.g. DAX, CAC, etc.);
  - region certificates: these are derived from a series of indexes or companies from a certain region (e.g. Eastern Europe, Pacific area, etc.);
- basket certificates: these are derived from a selection of national or international companies active in the same sector (e.g. biotechnology, telecoms, etc.), indexes, bonds or other underlyings;
- Guarantee: these certificates are securitised;
- Maturity and trading: the maturity of these certificates usually ranges between one to three years. However, these certificates can be traded at any time;
- Limited duration: these are incorporated in an instrument and thus have a limited duration;
- Investor’s rights: no voting right and no right to dividend/interests in relation to the underlying assets;
- Repayment: repayment occurs upon maturity and equals:
  - a set amount per index point for an index certificate;
  - the difference between the market value upon maturity and the strike price for a region or basket certificate.

Advantages
For a minimum of capital investment, the investor can achieve diversification over a broad range of instruments or risk factors and thus mitigate the latter.
This type of product offers the same potential of gains or losses as a similar direct investment in the underlying assets but, due to the diversification of the index, it is possible to limit or even eliminate the risks specific to the companies in this index and thus to limit the risk of losing the full amount invested.
They are usually low-cost products (especially as they have no rights to dividends/interests or voting rights vested in them).

Risks
1. Transfer of risk

Investments in index, region or basket certificates basically involve the same level of potential loss as direct investments in the corresponding shares. However, they offer greater risk diversification.
However, this does not mean the risks are eliminated - they may simply be transferred to the market or sector on which the certificate is based.

2. Absence of rights

In contrast to direct investments, certificates do not confer any voting rights nor do they entitle the investor to payments of dividends or interest in relation to the underlying assets.
Therefore, a fall in the price of the certificate cannot be offset by payments of dividends or interest.

3. Issuer risk

In addition to the risk of insolvency of the companies constituting the underlyings of the certificate, the investor is exposed to issuer risk, i.e. the risk of insolvency of the credit institution issuing the certificate.

4. Leverage risk
Owing to the leverage effect, price variations in the value of the certificate are generally higher than the changes in the price of the underlying assets. Thus, during the lifetime of the certificate, both the opportunities for gains and the risks of losses are higher. The risk attached to the purchase of a certificate increases with the importance of the leverage effect of the relevant certificate.
Such certificates are usually volatile instruments and can lose their entire value very quickly.

5.2.9 "Alternative" investments and off shore-funds

Characteristics

– An "alternative investment" consists of an investment in a fund, the style of which is completely different from traditional investments in shares and bonds due to the type of investments made by the relevant fund. Hedge funds are the most usual type of alternative investments. Their investment style is often based on short sales, leverage effects and derivatives.
  Investments in private equity funds are also included in this category (venture capital and the financing of acquisitions of companies).
  Within the context of alternative investments, assets may also be invested directly in financial instruments (shares, fixed or floating rate bonds, zero coupon bonds, convertible bonds or money-market instruments) or in financial instruments replicating index performances. The choice of financial instruments is limited neither from an industrial, sectorial or geographical point of view, nor as regards the type of financial instruments or securities or the currencies in which they are expressed.
  Generally, alternative investments do not compare their results with a benchmark or a price index: their aim is the absolute (positive) performance. Alternative investments rely on a wide range of investment strategies, where classification may partly be discretionary. Furthermore, many funds combine several investment strategies in their daily management or use management methods which include characteristics of more than one of the major strategies as described here below. Each of these strategies implies its own yield, risk and market risk.
– Hedge Funds: Hedge funds can freely choose the products and markets (including emerging markets) in which they want to invest and their trading methods. Such funds usually set high minimum investment requirements for investors.
  Their basic strategy aims to mitigate the risks associated with a long term position in a portfolio of securities by selling short other financial instruments. As their exposure to market risks is reduced, they use leverage effects to increase the yield. They usually buy securities which are considered under-valued (long position) and sell short securities which are considered over-valued (short position). The "short" part of the portfolio can also be composed of investments in indexes. More specifically, a distinction may be made between the following types of funds:
  – long/short shares or bonds: the style of these investment funds is the truest style of alternative investment. The stock picking is the primary source of performance for this kind of fund. It is usually the result of an analysis of the fundamentals;
  – funds focused on aggressive capital growth invest in shares viewed as having high growth potential. Therefore, they frequently invest in small caps. Funds specialised in a particular line of business (technology, media, telecom) often belong to this category;
  – value funds invest in securities seen as highly under-valued for various reasons in comparison with their intrinsic value;
  – market neutral funds maintain a balance between long and short positions in order to reduce the correlation with market trends. This strategy is based not only on a fundamental in-depth analysis and stock picking but also, more particularly, on an in-depth analysis of risks. The short positions usually consist of shares positions;
  – short sellers: these funds only sell short. They look for securities considered over-valued, where the value is expected to fall. The main selection criterion is the deterioration of the issuer's situation.
– Event driven funds: these aim to take advantage of specific events that occur in the life of companies: restructuring, mergers and spin offs. This kind of strategy is not usually affected much by market trends.
  – Opportunistic funds take advantage of IPOs, takeover bids, unexpected income or time-critical events relating to the issuer;
  – Distressed securities funds invest in securities, mainly bonds and bank debts that are highly under-valued due to the occurrence of bankruptcy proceedings or the existence of a rescue plan. This kind of strategy is mainly used in the United States, where legislation is favourable to this kind of investment.
– Arbitrage funds: these use the imperfections of the market to generate returns. They try to identify price or yield differentials that are not justified by the issuer's economic situation. They invest when they consider there is a high probability that such anomalies are going to disappear. They are also called "relative value funds". A distinction can be made between the following tendencies:
  – Fixed income arbitrage: the funds use mispricings on bond markets;
  – Convertible bond arbitrage: arbitration is made between convertible bonds, usually long positions

and the shares, usually short positions;
    - Mortgage backed securities: the funds take advantage of anomalies on the mortgage market (as well as in derivative financial instruments);
    - Merger arbitrage: the funds focus on takeover bids and mergers.
- Traders/CTA (commodity trading advisors): these use both short and long positions on the markets (shares, bonds, futures, commodities, exchange…) with a high leverage effect. These funds do not usually invest in long-term positions. They try to catch excessive price variations in the short term or to follow trends (trend followers). Their correlation with the bond and stock markets is low. Thus:
    - Systematic funds invest according to a computer programme-based and a quantitative pattern;
    - Discretionary funds rely more on a fundamental analysis of the market.
- Macro Players: these funds try to anticipate major macroeconomic trends. They follow an opportunistic strategy. They rely on a fundamental macroeconomic analysis and on market reactions to changes in economic policies (interest rate, currencies movements and other factors). They can invest in all types of financial instrument and in all markets, according to opportunities. They also take leveraged positions.
- Special situations funds: these funds take advantage of very specific situations and may even sometimes create the event, for instance by forcing the manager of a company to change his strategy. They are also called niche players. They can for instance be:
    - Opportunistic funds without any pre-determined strategy. They simply take advantage of opportunities they find;
    - Funds of funds, which are funds that invest in other alternative investment funds active in one or more segments as described above. All these strategies may also be categorised geographically or sectorially, as for traditional funds.
- The word "off shore" funds points to investment funds located in offshore centres, such as the Bahamas, the Bermudas, the Cayman Islands, Panama or the Dutch West Indies.

  Each fund has its own risks and it is not, therefore, possible to describe in detail the risks associated with investments in such products in this document. It is only possible to provide summary information. Consequently, the investor must ascertain the risks, on a case-by-case basis, before investing in such products, for example, by consulting the fund prospectus.

Advantages

The prospects of gains are usually attractive for the level of risk incurred (volatility risk).

Risks

1. Leverage risk

In this domain, investment strategies may involve high risks. For example, by using leverage effects, a slight change in the market may lead to significant gains as well as losses. In some situations, the entire investment may be lost.

2. Lack of information

The net asset value of such investment instruments is not usually known at the time the investor decides to invest or to redeem his investment. This is due to the fact that, in principle, a notice period is necessary before such a transaction can be performed. Consequently, the net asset value can only be calculated once the investment has been made or redeemed.
Moreover, very often, investors in "alternative investments" only have scant information at their disposal. The sometimes very complex strategies of the investment funds frequently lack transparency for investors. Strategic changes, which may lead to a significant increase of the risks, often remain unclear or even completely underestimated by investors.

3. Potential lack of liquidity

Alternative investments may be more or less liquid. Sometimes, liquidity is very poor.
Most of these investments are subject either to lock-in periods, or redemption penalties if investments are redeemable within a certain period of time. This is due to the relatively illiquid nature of the investments encompassed in such instruments, which tend to be made with a long-term investment view.
Moreover, many of the investment techniques used in the alternative investment industry involve investments either in illiquid financial instruments, or in instruments that are subject to legal or other restrictions on transfer. Therefore selling an alternative investment position may only be possible periodically or on certain dates after a notice period of several weeks, for example, four times a year, on specific dates. Due to bid/ask spreads, the payment of the sales proceeds may not amount to the net asset value of the instrument.
Share redemption for hedge funds will only be possible monthly, quarterly or annually. As regards private equity funds, the lock-in period may last up to 10 years or more.
Finally, due to the complexity of the underlying investments made by these funds, adjustments in the net asset value may be necessary following receipt of the revised annual accounts, As a result, certain alternative investment funds block part of the shares of the investor, if the latter decides to sell off 100% of his shares, until receipt of the revised annual accounts.

4. Minimal regulation

A significant number of funds in this sector are located in offshore centres ("off shore" funds).
Frequently, these offshore centres only impose minimal regulations on the funds. As a result, numerous problems or delays may occur during the execution of buy or sell orders for which the Bank cannot be held liable. The enforceability of the investor's rights is not systematically guaranteed.

The investor interested in "alternative investments", particularly "off shore" funds, needs to be aware of those risks. Before entering into a transaction, the actual investment products should be carefully examined.

5. Short sale
UCITS in which the Bank invests on behalf of the client, may execute short sales of securities which are likely to expose the assets of the UCITS thus invested to an unlimited risk, due to the absence of an upper price limit for these securities. However, the losses will be limited to the amount invested in said UCITS.

6. Valuation of UCITS
The net asset value by unit of the funds, in which the investments have been made, is not audited, with the exception of the value calculated at the end of the financial year. Therefore, for the valuation of such UCITS, the Bank mainly relies on unaudited financial information provided by said funds, administrative agents and/or market makers. If the financial information used by the funds to determine their own net asset value by unit is incomplete, inaccurate or if such net asset value does not reflect the value of the investments made by the funds, the valuation of these assets will be inaccurate.

7. Absence of custodian bank
For some UCITS in which assets are invested, the custodian is a broker instead of a bank. In some cases, these brokers do not enjoy the same credit rating as a bank. Furthermore, unlike custodian banks which carry out their activities in a regulated environment, such brokers guarantee the protection of the assets but are not always subject to regulatory supervision.

8. Performance commission
Owing to the specialised nature of these funds, many, if not the majority of these funds, may charge performance commissions.

9. Duplication of fees
Where the client invests in an investment fund rather than directly in the financial instruments in which the fund invests, this may trigger additional fees payable by the client.

10. Additional risks associated with private equity funds
Private equity investments typically carry the following additional risks:

– No assurance of investor return:
  The risk to the investor is that he may not recoup the full invested amount, and may even lose it completely. Past investment performance of these instruments is no guarantee of future investment performance, particularly as the nature of the investment environment is constantly changing (new geographic areas, new specialised areas, etc…). In particular, there is often strong competition to acquire portfolio companies during a cyclical upturn, whilst it may be difficult to withdraw from such investments during a cyclical downturn;
– Low liquidity:
  These funds usually have a term of seven to fifteen years. There is no recognised secondary market in such private equity investments. As a result, the penalty for withdrawing from a private equity fund (which will usually require payments over a number of years) can be severe, up to and including complete forfeiture to any rights to monies already invested in such an investment.
  As regards the funds that an investor commits to pay to the fund, the investor must pay particular attention to the notice periods, which are usually very short (perhaps as short as seven days,) and should make sure that he has sufficient liquid assets set aside to meet these calls for payments at short notice.

5.2.10 Investments in real estate

Real estate investment comprises investment in "real" assets, such as residential housing, office buildings, retail properties, etc…

Characteristics

Such investments are generally made through investment funds or listed investment companies, thus providing a certain degree of diversification. Such diversification generally reduces portfolio volatility and serves as a hedge against inflation.
Some real estate investments may have elements of private equity investments.

Risks

1. 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 always be 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 seven years.

2. Leverage effect
In the case of the leverage effect, movements in the market may generate major gains, but also high losses.

5.2.11 Specific risks associated with securities lending

When an investor lends financial instruments, the ownership of these instruments (including the related rights as well as potential claims arising from them) is transferred to the borrower. As a lender, the investor is granted a contractual right against the borrower to repayment in instruments of the same nature, quantity and quality. The investor is consequently exposed to the risk of bank-

ruptcy, insolvency or reorganisation proceedings or any other similar proceedings of the borrower or of attachment or freezing measures affecting the borrower's assets.
The investor can dispose of the financial instruments lent only when these have been returned to him. There is thus a risk, until this restitution occurs, which may last several days, that he cannot sell these financial instruments at a time when their market value increases. Moreover, the investor can have no guarantee that restitution will take place on a specific date, with the result that he may not be in a position to exercise his rights in due time (e.g. voting right associated with these financial instruments).
It may happen that when he has to return the financial instruments, the borrower is unable to purchase these instruments on the market. In such a case, the investor may receive a cash payment for an amount equal to the market value of the financial instruments he has lent instead of the financial instruments.
If the borrower provides collateral to guarantee the repayment of the lent financial instruments, it cannot be ruled out that the value of the assets constituting the collateral, could be lower than the value of the lent financial instruments when the collateral is enforced.

This document does not claim to describe all risks inherent to investments in financial instruments. Its objective is rather to provide basic information and to make clients aware of the existence of the risks inherent in the above-mentioned investments in financial instruments. The client should not enter into any investment transaction before adequately familiarising himself with all the risks and tailoring his investments to his assets, needs and experience.

Further information or details are available upon request.

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