

Overview of the characteristics of, and main risks attached to, financial instruments

Table of contents

Overview of the key risks associated with financial instruments.....	2
I. Insolvency risk.....	2
II. Income shortfall and non-repayment risks.....	2
III. Liquidity risk.....	2
IV. Currency risk.....	2
V. Inflation risk.....	2
VI. Interest rate risk.....	2
VII. Price volatility risk.....	2
VIII. Country risk.....	3
IX. Credit risk when purchasing credit-financed financial instruments.....	3
X. Other risks.....	3
Characteristics of financial instruments and specific risks related to certain financial instruments.....	4
I. BONDS.....	4
A. Description.....	4
B. Characteristics.....	4
C. Risks.....	4
D. Bond characteristics.....	4
E. Functioning and performance.....	6
II. SHARES.....	6
A. Description.....	6
B. Characteristics.....	6
C. Risks.....	6
D. Share characteristics.....	7
E. Related securities.....	7
F. Functioning and performance.....	7
III. UNDERTAKINGS FOR COLLECTIVE INVESTMENT.....	8
A. Description.....	8
B. Characteristics.....	8
C. Risks.....	8
D. Fund characteristics.....	8
E. Functioning and performance.....	9
IV. ALTERNATIVE INVESTMENTS.....	9
A. Definition.....	9
B. Forms.....	9
C. Risks.....	9
D. Functioning and performance.....	10
V. DERIVATIVES.....	10
A. Description.....	10
B. Options.....	10
C. Warrants.....	12
D. Futures/forward contracts.....	12
VI. STRUCTURED PRODUCTS.....	13
A. Structured products whose capital is protected.....	13
B. Structured products or deposits whose capital is not protected.....	14
C. Functioning and performance.....	14
Risks associated with credit-financed financial investments.....	15
I. Lombard loan products.....	15
A. Definition.....	15
B. Risks.....	15

Overview of the key risks associated with financial instruments

The Bank would like to inform retail clients in particular that they should be aware of the risks set out in this document when their level of experience, knowledge and expertise is lower than that of a professional client or eligible counterparty.

I. Insolvency risk

The insolvency risk of a debtor is the likelihood, in the case of the issuer of a security, that it may no longer be able to service its liabilities (such as paying interest or repaying the initial capital). An issuer's solvency may vary according to general economic trends or changes regarding the issuer's company and/or business sector throughout the term of the financial instrument. In particular, this could be due to economic changes or changes regarding the company, business sector and/or country concerned, as well as political developments having significant economic consequences. A deterioration of the issuer's solvency will have an adverse effect on the price of the securities concerned.

The creditworthiness of the issuer of a security is therefore very important. It is essential to properly assess this risk. The more an issuer's financial and economic situation deteriorates, the greater the risk that all or part of the issue will not be redeemed. The interest rate offered by this type of issuer will, of course, be higher than that offered by a higher quality debtor for a similar instrument. A useful guide in this regard is the rating (risk assessment established by an independent body). The higher the rating, the lower the risk. However, rating agencies issue point-in-time ratings and are not infallible. Ratings may be reviewed during an instrument's term.

II. Income shortfall and non-repayment risks

An income shortfall risk is the likelihood of an investment failing to generate income for the investor. This results in a loss in absolute terms because of inflation and an opportunity cost in relative terms compared with a profitable investment.

Capital risk (or the risk of non-repayment) is the likelihood of an investor failing to recover the full amount initially invested at maturity or when exiting an investment. In the case of an investment in shares, for example, the capital risk is significant, since the capital invested varies according to the company's economic and financial situation.

III. Liquidity risk

Insufficient market liquidity may prevent investors from selling their securities at the market price. In principle, we make a distinction between a lack of liquidity caused by the laws of market supply and demand and a lack of liquidity due to a security's inherent characteristics or to market practice. A lack of liquidity due to market supply and demand arises when a security is exclusively or almost exclusively in supply (seller's price) or exclusively or almost exclusively in demand (buyer's price) at a certain price. Under such circumstances, buy or sell orders cannot be executed immediately and/or only partially (partial execution) and/or under unfavourable conditions. In addition, higher transaction costs may apply. A lack of liquidity due to a security's inherent characteristics or due to market practice may occur, for example, because of lengthy transcription procedures for transactions involving registered shares, long execution delays because of market practice or other trading restrictions, or a short-term need for liquidity that

cannot be covered through sales of securities.

IV. Currency risk

Since foreign exchange rates fluctuate, a currency risk exists whenever securities are denominated in a foreign currency. A country's foreign exchange rate is particularly influenced by key factors such as its inflation rate, the gap between domestic and foreign interest rates, its projected economic development, the political situation and the safety of investments in the country. Additionally, psychological factors, such as a lack of confidence in political leaders, may weaken a country's currency.

V. Inflation risk

Currency devaluations may cause an investor to incur a financial loss. Therefore, it is important for investors to take into account the real value of their existing assets as well as the real realisable yield on this portfolio. Real interest rates should be used, i.e., the difference between the nominal interest rate and the inflation rate.

VI. Interest rate risk

Interest rate risk is the risk associated with a change in market interest rates resulting in a fall in a security's price.

For fixed-rate investments, such as bonds, the interest rate risk is the risk that a change in interest rates may result in a change in a bond's price and, therefore, a capital gain or loss. If an investor sells such an instrument on the secondary market before the maturity date, the investor will incur a capital loss at a time when the market rate is higher than the nominal rate. In contrast, if the market rate is below the nominal rate, this sale will generate a capital gain.

Example: the value of a ten-year fixed bond issued in 2016 with a coupon of 3% will fall if the market rate increases to 4% in 2017. On the other hand, if the rate falls to 2%, its value will increase.

For variable rate investments, such as shares, an increase in interest rates generally has a negative effect on share prices.

VII. Price volatility risk

Volatility risk is the likelihood that the price of a variable rate investment will be subject to fluctuations, varying in intensity, and resulting in a capital gain or loss. Investors will record a capital loss if the price falls and a capital gain if the price rises.

Irrational factors may affect price movements in general. For example, trends, opinions or rumours can cause prices to drop substantially even if the financial situation and prospects of the companies in question have not evolved unfavourably.

Moreover, changes in activity in a market economy always have repercussions on the price of securities. Prices fluctuate in line with economic growth and contraction. The duration and scope of these economic cycles of growth and contraction vary, as does their impact on the different sectors of the economy. In addition, economic cycles can vary from country to country. Failure to take the economic outlook into account or an incorrect analysis thereof when taking an investment decision may lead to losses being incurred. In particular, the effects of

economic cycles on prices must be taken into account.

VIII. Country risk

It may happen that a foreign debtor, although solvent, cannot repay the principal and interest on loans when due or may even default completely due to the unavailability of foreign currency or limits on foreign currency transfers in the debtor's country of origin. This risk includes the danger of economic and political instability. Consequently, investors may be exposed to a payment default in the event of the unavailability of foreign currency or limits on foreign currency transfers. With regard to securities issued in a foreign currency, investors risk receiving repayments in a currency that is no longer convertible because of exchange controls. In principle investors have no means of shielding themselves against such a risk.

IX. Credit risk when purchasing credit-financed financial instruments

Purchases of securities financed through loans are associated

with additional risks. On the one hand, additional collateral may be required if a change in the price of the pledged assets results in an excess of the guaranteed credit limit. If an investor is unable to provide such collateral, the bank may be forced to sell the deposited securities at an unfavourable time. On the other hand, the loss incurred due to an unfavourable price movement may exceed the initial personal investment. Fluctuations in the prices of pledged securities may lessen the investor's ability to repay the loans. Investors need to be aware that, due to the leverage factor accompanying the purchase of credit-financed securities, the sensitivity to price fluctuations of such investments will be proportionally greater. As a consequence, the chances of a gain increase, as do risks of loss. The greater the leverage, the greater the risks of such purchases.

X. Other risks

In this chapter, we include all the specific risks associated with an investment, for example the additional risk stemming from the leverage on options. These risks are described in detail below for each product.

Characteristics of financial instruments and specific risks related to certain financial instruments

I. BONDS

A. Description

Bonds are negotiable securities issued in registered or dematerialised form by a company or a government body. Bonds are acquired by investors that thereby lend capital to the issuer. At issuance, the par value of a bond represents a fraction of the total amount of the borrowing. The interest payments on bonds may be either fixed or variable. The duration of the debt as well as the terms and conditions of repayment are determined in advance. The purchaser of a bond (the creditor) has a claim against the issuer (the debtor).

B. Characteristics

1) Return

Interest payments, possible increase in value

2) Term

Short-term (<4 years), medium-term (4-8 years) or long-term (>8 years)

3) Redemption

Unless stipulated otherwise, bonds are repaid either at maturity, or by means of annual payments, or at different dates determined by drawing lots.

4) Interest

The interest depends on the issuance terms and conditions and may be fixed or variable.

C. Risks

1) Insolvency risk

This is the risk that the issuer may become temporarily or permanently insolvent and therefore unable to pay interest or redeem the bond. Thus, in the event of an issuer's insolvency, the creditor is exposed not only to a loss of income (non-payment of interest) but also to a capital loss. An issuer's solvency may vary according to general economic trends or changes regarding the issuer's company and/or business sector throughout the term of the bond. The insolvency risk varies according to the nature of the issuer, i.e. between for example government bonds and corporate bonds. In particular, this could be due to economic changes or changes regarding the company, business sector and/or country concerned, as well as political developments having significant economic consequences. A deterioration of the issuer's solvency will have an adverse effect on the price of the securities concerned.

2) Interest rate risk

Uncertainty concerning interest rate movements means that the purchaser of a fixed-rate security incurs the risk of a fall in the price of the security if interest rates rise. A bond's sensitivity to interest rate changes mainly depends on the remaining duration of the loan and on the nominal rate.

3) Early redemption risk

Some bonds are callable, i.e. the issuer is entitled to redeem the bond early, for example if market interest rates fall. Such early redemption may result in a change to the expected yield.

4) Risks specific to bonds redeemable by drawing

As it is difficult to determine the maturity of bonds redeemable by drawing, the yield on such bonds may be subject to unexpected changes.

5) Risks specific to certain types of bonds

With some types of bonds, additional risks may exist: for example, floating rate notes, reverse floating rate notes, zero bonds, foreign currency bonds, convertible bonds, index-linked bonds and options, subordinated bonds, etc. For such bonds, investors are advised to familiarise themselves with the risks set out in the issuance prospectus and not to purchase such securities before being certain that they have fully understood all the risks.

6) Liquidity risk

The ease with which an investor can buy/sell the said bond may vary depending on the market on which the bond is traded. This is known as liquidity risk. Thus, for example, a bond dealt in by only two counterparties will be more difficult to buy or sell at a reasonable price because of this inadequate 'market depth'.

On the other hand, larger issue bonds with numerous market makers will offer clients a particularly liquid investment.

There are several inherent risks in selling an illiquid bond: the price may be lower, the sale may take longer and there may be more operational difficulties. The direct consequences are lower potential sensitivity, a less attractive secondary market price (especially if the volume of securities to be sold is significant) and a shortfall for the client.

A wide bid-ask spread is a particularly visible example of a lack of liquidity. This spread can represent several tens or hundreds of basis points, which can represent a significant cost for a client when the security is not held long enough to absorb the cost. In a low interest rate environment, this holding period can be measured in months.

7) Risk of total or partial loss of the investment

In particular in the event of an issuer's bankruptcy, investors risk losing all or part of their investment.

D. Bond characteristics

Bonds can also be differentiated according to specific characteristics.

1) According to the type of interest

a) Floating Rate Notes – FRN: variable interest rate bonds. The interest rate is reset on a regular basis for the following period (for example, every six months, for the next six-month period) on the basis of an international money market reference rate, increased by a fixed margin.

Reverse Floating Rate Notes are notes whose coupon has an inverse relationship to market interest rates, meaning that the coupon rises when market interest rates fall and vice versa.

b) Zero-coupon bonds (Zero Bonds): bonds that do not pay annual coupons; instead interest is accrued up to maturity.

c) Fixed-rate bonds.

d) Step-up bonds: bonds that have different fixed coupons for the various sub-periods of the issue. The coupons increase over time.

For example: 2% for the first two years, 3% for the third and fourth years and 4% for the last two years.

e) Index-linked bonds: bonds whose return is linked to a given benchmark index.

2) According to the type of repayment

a) Perpetual bonds: bonds with no maturity date, with

fixed coupons but no repayment of the principal.

- b) Convertible bonds: bonds that enable investors to choose between the conversion or redemption of the bond during a given period, in accordance with pre-determined conditions. Conversion is irreversible. However, investors can opt for early conversion.

There is an insolvency risk which depends on the issuer's creditworthiness; a liquidity risk which may be high because the secondary market for this type of investment is generally narrow; a currency risk for bonds convertible into other currencies; and a price volatility risk leading to a capital loss.

In the event of the issuing company's dissolution or in other cases (such as bankruptcy), a subordinated convertible bond ranks below other current and future debt.

The conversion price, namely the price at which the bond can be converted into shares, is determined in advance and is not influenced by changes in the price of the underlying shares. It generally corresponds to the nominal value of the bond divided by the number of shares to which the holder is entitled when exercising the conversion right.

- c) Reverse convertible bonds: instruments that are redeemed either in cash (at par, if the price of the underlying shares has risen sharply), or in the underlying shares (if the share price has fallen significantly), but always at the bond issuer's choice.

Reverse convertibles often have a high coupon, but investors are exposed to a fall in the underlying share price. The high coupon rewards investors for the risk that they take of being paid in shares that have decreased in value.

From a technical viewpoint, this product is generally the combination of a money market investment and the sale of a put option. The premium received for the put option helps to fund the high coupon. The client may therefore be considered as the seller of a put option granting the issuer the right to deliver the underlying to said client at maturity, even if its value is zero.

Investors that choose a reverse convertible must pay close attention to the quality of the underlying shares, since they may be repaid in shares at maturity. Similarly, there is a risk that the investor will not be entirely reimbursed, but will receive a smaller amount equivalent to the value of underlying securities at maturity. There is therefore a risk of price volatility resulting in a capital loss.

- d) Bonds-cum-warrant: hybrid securities that combine the characteristics of bonds and shares, to which a warrant is attached entitling the holder to purchase one or more shares of the same company during a given period and under predetermined conditions. This instrument can be quoted in three different ways on stock markets: (i) the bond with the warrant attached (cum-warrant), (ii) the warrant and (iii) the bond with the warrant detached (ex-warrant). It is possible to sell the warrants separately, in which case the bond becomes ex-warrant. If the warrant is exercised, the holder acquires one share. A bond also becomes ex warrant if the warrant is exercised and it continues to run.

There is an insolvency risk which depends on the issuer's creditworthiness; a liquidity risk which may be high because the secondary market for this type of investment is generally narrow; a currency risk for bonds with warrants in other currencies; and a price volatility risk leading to a capital loss.

- e) Structured notes: a hybrid instrument generally issued by financial institutions and which uses a combination of complex financial techniques, for example to offer a return and/or redemption linked to the performance of an underlying, such as shares, a basket of shares, a share index or an interest rate, etc. They always have a predetermined maturity date. Several variants (and combinations of variants) are possible (among others: with or without capital protection; with or without the distribution of an interim coupon; on the basis of the underlying, etc.)

- f) Bonus certificates: bonus certificates represent asset rights as set out in the terms and conditions of those bonds. In general, they come in the form of par value debt instruments that entitle holders to a share in company profits. In principle, a distinction must be made between bonus certificates entitling the holder to a fixed or variable dividend and those entitling the holder to an option or conversion.

There is a risk of the non-distribution of interest or of a reduced capital repayment, as well as a risk of the issuer's bankruptcy which could result in the entire amount invested being lost.

3) According to the issuer

- a) Short-term notes: A short-term note is a debt instrument issued by a credit institution, representing an acknowledgement of debt whereby a credit institution (the borrower) declares that it has received a specific amount from the lender (the investor that purchases the short-term note) and undertakes to repay it to the lender at an agreed maturity date, while paying a pre-determined rate of interest. It guarantees a specific pre-determined return (capital plus interest). The interest rate, determined at the time the investment is made, is set for the whole of the agreed investment period. There are numerous forms of short-term notes.

A capital bond is a short-term note whose annual interest is not distributed, but added every time to the initial sum (accrued). At maturity, the short-term noteholders recover the amount of their initial investment plus all of the accrued interest.

A bond issued by a company (corporate bond) is a debt security which represents a participation in a debt issue of a private sector company. There is an insolvency risk which depends on the corporate issuer's creditworthiness; a liquidity risk which depends on the existence and efficiency of a secondary market for the security; a currency risk for bonds denominated in other currencies; and an interest rate risk leading to a fall in value of the security.

- b) Government bonds

- i. Bonds issued by a national government. The best known and most widely traded government bonds are Bunds (Germany), OATs (France), BTPs (Italy), Gilts (United Kingdom), Treasury Bonds (United States), OLOs (Belgium). These government bonds generally have good ratings, that is to say they are considered very likely to be repaid, although the crisis has shown that investors nevertheless need to pay attention to individual country ratings. They are generally medium-term, long-term or very long-term (30 years for example) debt instruments.

The biggest risk is interest rate risk resulting in a fall in the price of the bond: if such bonds are sold on the secondary market at a time when the market rate is higher than the nominal rate attached to a bond issue, the investor will incur a capital loss. The

price of the bond will fall to a level where the return (interest rate adjusted price) will be equal to the rate of return of a new issue on the primary market. In the opposite case (market rate lower than the nominal rate), the investor will realise a capital gain.

- ii. Government bonds: euro-denominated fixed income government securities paying an annual coupon. This form of investment is intended for non-professional investors and is similar in many respects to short-term notes. There is an interest rate risk resulting in a fall in the price of the security, meaning that if an investor sells it on the secondary market at a time when the market rate is higher than the nominal rate of the State note, the investor will incur a loss.

c) Eurobonds

A eurobond is a bond issued simultaneously on the capital markets of two or more countries. The currency of issue may be different from that of the debtor's country. The debtor may be a national government, a local authority or a corporate entity. The issue is underwritten by an international banking syndicate and placed with investors that mostly reside outside the debtor's country. The currency of such issues is different from that of the country of issue.

There is a risk on the debtor, which depends on the latter's creditworthiness (as rated by the rating agencies). The liquidity risk depends on the size of the issue, the existence and efficiency of a secondary market for the security.

d) Maturity characteristics:

- i. Perpetual bonds: bonds with no maturity date, with fixed coupons but no repayment of the principal.
- ii. Puttable/callable bonds: a bond with an embedded call option enables the issuer to redeem the bond early at a specified price on a specified date; a bond with an embedded put option enables an investor to require the issuer to redeem the bond early at a specified price on a specified date.

e) Ranking/collateral characteristics:

- i. Unsecured bonds: bonds that do not have a higher ranking because of the absence of collateral or personal surety in favour of bondholders.
- ii. Subordinated bonds: bonds that are reimbursed in the order of creditors only after ordinary debts and debentures and just before shareholders. Subordinated debt is riskier.

In the case of subordinated bonds, investors are advised to ascertain the ranking of the bond compared with the issuer's other bonds. In the event of the issuer's bankruptcy, those bonds will only be redeemed after repayment of all higher ranked creditors.

- iii. Contingent Convertibles (CoCos): CoCo bonds are a cross between bonds and shares which are redeemable in shares following the occurrence of certain events affecting the issuer, for example, in the case of capital inadequacy.
- iv. Covered bonds: bonds collateralised against assets (such as mortgages and public debt). Covered bondholders have priority rights over the cover pool assets. If these underlying assets do not generate sufficient income, the issuer is still required to repay the full amount of the covered bonds.

E. Functioning and performance

1) Favourable conditions

When market conditions are good, the capital value of

such bonds tends not to be very volatile and the return profile is very stable over time. Furthermore, the fundamentals of the issuers are generally good and they do not have any difficulty paying coupons and repaying the principal amount at maturity.

The instrument's overall performance will tend to be both stable and trend positively up to its maturity date.

In addition, market liquidity is good in such an environment, with a healthy secondary market balance between buyers and sellers, which is propitious for buying and selling large volumes of these instruments at attractive prices.

2) Unfavourable conditions

When market conditions are poor, the capital value of such bonds tends to be volatile, and the return profile is unstable over time. As the fundamentals of issuers deteriorate, investors are more nervous about the ability of issuers to meet coupon payments and repay the principal amount at maturity.

In addition, in this difficult environment, the market is far less liquid than usual. During periods of stress, there is a significant imbalance between buyers and sellers on the secondary market, with declining liquidity, which is not propitious for buying and selling large volumes of instruments at a reasonable price.

II. SHARES

A. Description

A share is a certificate representing a shareholder's rights in a company. Shares may be issued in registered or dematerialised form. One share represents a fraction of a company's share capital. In particular, shareholders have a right to part of the company's profits in the form of a dividend (provided that the general meeting decides to distribute a dividend), a voting right at the general meeting (except, of course, in the case of non-voting shares) and are entitled to a share in the liquidation value of the company if it is dissolved (provided, of course, that there is a liquidation surplus).

To be distinguished from shares: profit shares which neither represent the share capital nor a material contribution and cannot have a nominal value. In most cases, they are issued in consideration for a non-financial contribution to the company, in other words a non-assessable contribution. They entitle the holder to a share in profits during the life of the company and/or on its dissolution. Their holders can only exercise their voting rights in limited cases

B. Characteristics

1) Return

Possible dividend payments and price increase.

2) Shareholder's rights

Financial and ownership rights; those rights are determined by law and the issuing company's articles of association.

3) Share transfers

Unless otherwise required by law, transfers of dematerialised shares do not in principle entail any specific formalities. However, transfers of registered shares are often subject to limitations.

C. Risks

1) Business risk

Shares are risk capital: the company that issues them is therefore not required to redeem them. A purchaser of shares is not a creditor, but makes a capital contribution and, as such, becomes a co-owner of the corporation.

Shareholders thus have a stake in the growth of the company and in the related opportunities and risks, and it is therefore difficult to foresee precisely how the investment will perform. The most extreme case is the bankruptcy of the issuing company which may lead to the total loss of the amount invested. Furthermore, a transaction in these instruments may create financial commitments or other additional obligations for the investor, including potential liabilities, on top of the cost of acquiring these instruments.

2) Price risk

Share prices may undergo unforeseeable price fluctuations causing risks of loss. Price increases and decreases in the short, medium and long-term alternate without it being possible to determine the duration of such cycles. In principle, general market risk must be distinguished from the specific risk attached to the company itself. Both risks, individually or cumulatively, influence share prices.

There is always a risk of incurring a loss when selling shares (i.e. at a price lower than the purchase price).

3) Dividend risk

Dividend income is variable. A company may decide, for various reasons, not to distribute a dividend, or to limit the dividend in certain years.

4) Liquidity risk

Liquidity refers to the possibility of buying and selling shares rapidly without affecting their market value. Accordingly, a lack of liquidity may prevent an investor from selling shares at their market value, thereby forcing the investor to sell the shares below the expected price.

A distinction is generally made between a lack of liquidity caused by market supply and demand and a lack of liquidity due to a share's inherent characteristics (such as the company's market capitalisation or free float). A lack of liquidity occurs when the supply of or demand for a share at a given price is extremely weak. Under such circumstances, buy or sell orders cannot be executed immediately and/or only partially (partial execution) and/or under unfavourable conditions. In addition, the transaction costs involved may be higher.

5) Risk of losing the entire investment

Investors are exposed to the risk of losing the entire amount of their investment.

D. Share characteristics

Shares can be further differentiated according to specific characteristics.

1) Preferential shares

shares that entitle the holder to a higher dividend and/or priority in the event of the company's liquidation.

2) Shares without voting rights

shares that entitle the holder to a dividend that may not be less than that attributed to shares with voting rights.

E. Related securities

A tracker is a hybrid instrument, a cross between shares and SICAVs (below, 1(a)). It is also called an Exchange Traded Fund or ETF.

It offers investors the possibility to invest in a diversified portfolio of shares, bonds, commodities or a sector of the economy in a single transaction. There is no need to buy the various securities making up the index, since by investing in a tracker, the investor is investing directly in the index's performance: like index-linked SICAVs, a tracker is a passive financial instrument that tracks changes in an underlying stock-market index as closely as possible.

Trackers can be distinguished according to their investment

strategy:

1) 'Long' trackers

these speculate that the underlying index will rise. The tracker's price changes favourably when the value of the index rises. In contrast, the client loses money when the index declines.

2) 'Short' trackers

these speculate that the underlying index will fall. The tracker's price changes favourably when the value of the index falls. In contrast, the client loses money when the index rises.

3) 'Simple' trackers

replication 1: one of the components of the underlying stock market index (delta one). The tracker's performance fluctuates more or less in the same proportion as the underlying index.

4) 'Leveraged' trackers

the tracker's price fluctuates depending on the leverage (Leveraged ETF). Thus, a tracker with leverage of 2 effectively doubles the exposure to both upward and downward movements in the underlying index. The use of this type of tracker is very risky.

5) 'Physical' replication trackers

the tracker manager buys and sells all the securities making up the benchmark index, taking account of its weightings.

6) 'Synthetic' replication trackers

the tracker manager does not buy the index's securities directly, but uses derivatives (futures/swaps) to reproduce the index's performance.

Like listed shares, trackers are quoted on a stock listed continuously on a stock exchange, and their liquidity is ensured by the issuers and market makers. They distribute dividends once or twice a year, after deduction of the management fee.

Trackers track an index but do not offer direct capital protection as such.

The price risk depends above all on the general trend of the stock market and the securities in which the tracker is invested. The price of a tracker may vary in the same way as that of shares. As indices are based on a diversified basket, trackers are not subject to excessive fluctuations, except for leveraged trackers, whose stock market price depends on the leverage, since the higher the leverage, the more the tracker's volatility will increase. Quadruple leverage increases a tracker's volatility considerably and the risk of losing money is heightened.

These financial instruments are subject to additional risks.

The decorrelation risk between the ETF's performance and the benchmark that the portfolio manager seeks to replicate.

For leveraged ETFs, the cost of financing the leverage may be very high and have a significant effect on the ETF's performance.

F. Functioning and performance

1) Favourable conditions

The performance of an investment in shares depends directly on the company's performance and therefore on its ability to generate profits. Some economic situations can be favourable for an investment in shares. During periods of growth, the economy is buoyant, consumer spending is strong and companies post good earnings, which has a positive impact on shares.

2) Unfavourable conditions

Holding shares during a period of recession can entail significant capital losses. The economy contracts, consumer spending falls and corporate earnings are not

as good, which has a negative effect on equity markets.

III. UNDERTAKINGS FOR COLLECTIVE INVESTMENT

A. Description

An Undertaking for Collective Investment (UCI) or an investment fund is a company or organisation that collects funds from a number of investors for the purpose of investing them in a range of assets based on the risk-spreading principle and enabling its shareholders or participants to benefit from the results of the management of their assets.

A distinction is made between contractual undertakings for investment (common investment fund (FCP) which does not have legal personality and whose pooled assets are managed by a management company on behalf of participants) and undertakings for investment with corporate status (investment company; the issuer is thus a corporation (with legal personality) that issues shares).

A distinction is made between closed-end investment undertakings and open-ended investment undertakings.

1) Open-ended

The number of units and therefore participants in an open-ended fund is not fixed. An open-ended fund may issue additional shares as well as redeem shares already in issue. From an investor's point of view, the fund is obliged to redeem units at the agreed redemption price (the NAV – Net Asset Value) and according to contractual provisions.

Example: a SICAV, an open-ended investment company, can increase its capital daily (by issuing new shares) or reduce it (by redeeming existing shares). The investment income may be distributed in the form of dividends or accumulated. Its sole object is to invest funds raised from the public in transferable securities or money market instruments, in accordance with the principle of diversification. Within the same SICAV, it is possible to create different sub-funds, each with its own portfolio composition and investment objectives.

2) Closed-ended

The number of shares issued in a closed-end fund is limited to a specific number. In contrast to open-ended funds, the fund is not obliged to redeem outstanding shares. Shares may only be sold to third parties or, in some cases, on a stock exchange. The price obtained is determined on the basis of supply and demand.

Lastly, some, but not all UCIs have capital protection (by offering full or partial protection of the capital by guaranteeing to repay at least the initial asset value at maturity). This protection may take the following form: The company responsible for managing a product with capital protection may comply with the capital protection at maturity commitment, for example by investing part of the initial funds in a fixed income financial product from the outset. In this case, the management company will invest x% of the initial funds in order to ensure the capital invested is protected at maturity. The remaining funds (100-x)% will be used to try and generate an additional return on the product with capital protection.

B. Characteristics

1) Informed investors

Some UCI units are reserved for specific categories of investors, for example, professional investors or eligible counterparties. In principle, therefore, retail clients will not be able to invest in such UCIs.

2) Management

The management of the assets is entrusted to specialists who invest the funds raised in various assets (shares, bonds, money market instruments, real estate certificates, currencies, term investments, etc.), while complying with the investment undertaking's investment policy described in the prospectus. Investors do not have the right to monitor the investment policy implemented by the UCI. In order to determine whether a UCI corresponds to their needs, they must consult the UCI's issuance prospectus.

UCIs are managed solely in the interests of participants.

3) Investments

UCIs reinvest the funds entrusted to them by their investors in accordance with the principle of risk spreading, while complying with investment restrictions laid down in law on the diversification of financial assets and the investment strategy defined in the prospectus.

4) Information requirements

UCIs are required to comply with the provisions on investor information, such as the publication of an issuance prospectus, a KIID (Key Investor Information Document) for UCITS funds, and annual and semi-annual reports.

C. Risks

In general, investors must familiarise themselves with the specific risks of each fund, in particular by consulting its prospectus. This prospectus is made available to the public either on the website of the fund's promoter, or on request from the distributor.

1) Management risk

Since the return on the investments of an investment fund depends, among other things, on the expertise and quality of the decisions of the fund managers, errors of assessment in the management of the fund can lead to losses.

2) Risk of a drop in prices

Investment fund units or shares are subject to the risk of a price drop, reflecting a decrease in the corresponding value of the securities or currencies comprising the fund's assets, all other things being equal. The more diversified the fund, the lower the risk of losses. Conversely, the risks are higher for more specialised investments and less diversified funds. Investors must therefore pay attention to the general and specific risks associated with the securities and currencies held in the fund. There are UCIs with and without a fixed maturity date and capital protection.

3) There may also be a liquidity risk, in particular for some SICAFs

Despite their stock market listing, the liquidity varies very significantly from one share to another over time. When markets are pessimistic, they sometimes trade at a significant discount and are difficult to sell.

4) Risk of losing the entire investment

Investors are exposed to the risk of losing the entire amount of their investment.

D. Fund characteristics

1) Money market UCIs invest predominantly in cash and short-term securities (less than one year), such as time deposits, treasury certificates, short-dated bonds, commercial paper and certificates of deposit.

2) Bond UCIs invest mainly in fixed income securities with a maturity exceeding three years; a distinction is made between bond UCIs without a fixed maturity date and

those with a fixed maturity date (“fixed maturity funds”).

- 3) There is an interest rate risk equal to the interest rate risk of an ordinary bond with a period to maturity equal to the average maturity of the bond fund's bond portfolio. The interest rate risk exists throughout the period of the investment. There is also a high currency risk for UCIs that invest in volatile currencies. The volatility risk depends on the maturity date: the longer the time to maturity and the lower the coupon, the higher the volatility risk.
- 4) Equity UCIs invest chiefly in corporate shares and on an ancillary basis in derivatives such as warrants, options, etc.
- 5) Mixed UCIs invest in both equities and bonds.
- 6) Real estate UCIs invest mainly in real estate or other real estate UCIs or in land certificates (such as SICAFIs: closed-ended real estate investment companies).
- 7) SICAFIs are sensitive to interest rates, which have an adverse effect on prices when rates are trending upwards, and offer an uncertain return because the annual income depends on the rental income of the properties and possible maintenance and repair costs. Income may even disappear temporarily if a property is empty or if it is necessary to offer rent-free lease incentives to find an occupant.
- 8) Funds of funds are UCIs that invest in other UCIs.
- 9) Index-linked UCIs are UCIs that invest solely in equities and whose objective is to track stock market trends as a whole. An index measures the general performance of shares listed on a given market. It covers either all or part of the listed shares. An increase in interest rates generally has a negative impact on share prices and indirectly on the price of an index-linked SICAV.

E. Functioning and performance

1) Favourable conditions

The performance of UCIs depends on their investment policy and the underlying assets. A UCI's performance is likely to benefit from a positive environment for its underlying assets.

2) Unfavourable conditions

The performance of UCIs depends on their investment policy and the underlying assets. A UCI's performance is likely to be adversely affected by an environment that is negative for its underlying assets.

IV. ALTERNATIVE INVESTMENTS

A. Definition

Alternative investment funds are funds that differ from traditional funds investing in shares or bonds on account of their investment style.

Alternative funds seek to achieve a positive performance in every market environment, regardless of developments on equity and bond markets. Alternative management seeks to exploit market inefficiencies and take advantage of arbitrage opportunities and it may make use of leveraging, short selling and derivatives in particular. The manager of an alternative fund may therefore use a wide range of investment categories.

European Directive 2011/61/EU on Alternative Investment Fund Managers (AIFMD) makes significant changes to the legal framework for the management and marketing of certain alternative investments in Europe. Of course, while this directive does not regulate alternative funds (it only regulates the managers of such funds), the rules nevertheless also have a direct impact on the funds themselves. A few examples have been included below.

B. Forms

The most commonly known forms of alternative investments are:

- 1) Hedge funds, whose investment style often includes short selling, leverage and derivatives. Hedge funds generally have low liquidity: there may be a fairly long notice period and process for the redemption of units.
- 2) Private equity funds (venture capital, financing of company acquisitions).
In general, private equity funds are not listed. They use “private” capital to finance investments in companies, real estate developments, leveraged buy-outs, etc. Generally, investments in such funds are reserved for major investors, as the minimum subscription amount is often high.

C. Risks

Alternative investments generally present high risks, in addition to those associated with traditional bond and equity portfolio management. Such risks may be substantial and may even involve the total loss of such investments. Certain significant additional risks are mentioned (in a non-exhaustive list) below. It is therefore the investor's responsibility to ensure that these risks are in line with his/her overall personal and financial situation.

1) Leverage risk

Investment strategies may be associated with high risk exposure. Many funds and funds of alternative funds include short selling, derivatives and leverage in their strategies. Leverage works as follows: for the fund, leverage consists in borrowing funds or using derivatives to multiply the portfolio's exposure. This has the effect of multiplying the fund's sensitivity to the underlying assets by the leveraged used. For example, through leverage, only a slight market swing may result in significant gains or losses. In some situations, an entire investment may be lost. The investor must therefore be prepared to accept often considerable price fluctuations.

Under AIFMD, alternative fund managers are required to provide information on the general level of leverage used, the leverage resulting from the borrowing of cash, transferable securities or derivatives, the reuse of assets and the main sources of leverage for their alternative funds. In addition, the competent authorities in each member state can impose limits on the level of leverage that a manager may apply.

2) Lack of transparency

Investors in alternative investments often have very little information at their disposal. The sometimes very complex strategies of investment funds frequently lack transparency for investors. Strategic changes that may lead to a significantly increase risks often remain unclear or even completely underestimated by investors.

Under AIFMD, alternative fund managers must provide information on each alternative fund that they manage to investors and competent authorities.

3) Potential lack of liquidity

The degree of liquidity of alternative investments varies very strongly. Liquidity may be very limited. In the case of open-ended hedge funds, redemptions are only possible on a monthly, quarterly or annual basis subject to a notice period of several weeks, and only for a certain percentage of the total investment held by the investor. For this reason, it may take a relatively long time to exit an investment completely. As for private equity funds, the lock-up period may last up to 10 years or more. The managers of such investment vehicles are even entitled

to suspend redemptions either under specified conditions or at their discretion.

The only option for an investor wishing to withdraw early from an investment in a private equity fund is via the secondary market (which is not available for all private equity funds and is generally reserved for institutional investors). If a counterparty is interested in the investor's existing position, it could buy it from them at what may be a significant discount. In certain cases, the private equity fund management's approval is required for the sale of shares.

4) Minimal regulation

In general, alternative funds are deregulated: often, they are not subject to regulatory controls of the kind applicable to traditional investment funds. A first step towards addressing this shortcoming has been taken through the adoption of the abovementioned AIFMD directive, which seeks to regulate the managers of certain alternative funds.

Alternative investment structures (investment vehicles) may take various legal forms (simple contracts, companies, limited partnerships, trusts, SICAVs, etc.) offering great flexibility.

For tax reasons, many funds in this sector are domiciled in geographically distant offshore locations, such as the Bahamas, Bermuda, the Cayman Islands and Panama. Investor protection regulations (requirements regarding the security of investments, risk spreading, capital adequacy of investment vehicles, etc.) are therefore often minimal. In particular, accountancy legislation does not always ensure that the relevant accounting documents accurately reflect the value of the assets concerned. And, even where it exists, prudential supervision there may be weak, or indeed ineffective.

Alternative fund managers that fall within the scope of AIFMD are subject to prudential supervision. In addition, managers are required to appoint a custodian that is responsible for ensuring the appropriate monitoring of the alternative fund's financial flows and the custody of the fund's financial instruments.

As a consequence, the execution of buy or sell orders may be subject to numerous problems or delays for which the bank cannot be held liable. Investors' rights are not systematically guaranteed. In the event of civil litigation, investors may encounter problems in enforcing deeds of ownership and debt claims against third parties and issuers as a result of legal or other shortcomings in the legislation of certain countries. The possibility that the issuers concerned may default on their payments cannot be excluded.

Investors who are interested in alternative investments and notably in offshore funds should be aware of the risks such investments entail (although AIFMD has already made some changes).

The following table highlights the differences between traditional management and alternative management:

	Alternative management	Traditional management
Strategies	long and short positions are allowed	only long positions
Performance target	seeks to generate an absolute return in both bull and bear markets	seeks to outperform its benchmark
Management techniques	use of leverage and derivatives	limited use of leverage and derivatives
Correlation between portfolio managers	low: the same strategy may produce different results	high: the same strategy generally produces similar results
Investment limits	low: the management is not subject to European Directive 2009/65/EC on UCITS, but is subject under certain conditions to European Directive 2011/61/EC on alternative investment fund managers	high: the management is subject to European Directive 2009/65/EC on UCITS

5) Risk of losing the entire investment

Investors are exposed to the risk of losing the entire amount of their investment.

D. Functioning and performance

1) Favourable conditions

The performance of alternative funds depends on their investment policy and underlying assets. The performance of alternative funds is likely to benefit from a positive environment for the underlying assets, depending on the direction of exposure taken and in proportion to the leverage and exposure.

2) Unfavourable conditions

The performance of alternative funds depends on their investment policy and underlying assets. The performance of alternative funds is likely to be adversely affected in a negative environment for the underlying assets, depending on the direction of exposure taken and in proportion to the leverage and exposure.

V. DERIVATIVES

A. Description

A derivative is a financial instrument whose value changes in line with an underlying asset. This asset may be a stock market index, a share, an interest rate, a currency pair, a commodity or even another derivative.

Derivatives were developed to hedge the risks associated with the underlying assets but they are also used for purely speculative purposes.

We distinguish between: options, warrants, futures and forwards

B. Options

1) Description

Options are derivative instruments whose value varies in line with changes in the value of the underlying. The purchaser of an option receives, in consideration for the payment of a premium to the counterparty (the seller of the

option), the right to purchase (call) or to sell (put) the underlying asset on a fixed expiration date or during a certain period at a pre-determined strike price.

Options give the buyer the right, but not the obligation, to enter into a transaction throughout the lifetime of the option (American options) or on a fixed expiration date (European options). The seller of the option has a firm commitment whereas the buyer of the option is free to exercise the option or not.

We distinguish between:

- listed options which are contracts traded on a stock exchange. They are standardised regarding the quantity of the underlying asset and the expiry date of the transaction;
- over-the-counter options which are traded directly between two parties.

2) Characteristics

- a) The underlying asset: the asset to which the option is linked (stock market index, financial instrument, commodities, etc.).
- b) Term: the option term starts from the day of its subscription until the day the option right matures.
- c) Parity: this link characterises the number of units of the underlying that the holder of the option has the right to purchase (call option) or to sell (put option) by exercising the option right.
- d) Strike price: price at which the buyer of the option can buy (call option) or sell (put option) the underlying asset. It is determined between the parties when the option is purchased.
- e) Maturity: expiry date of the contract which corresponds to the last day on which the holder can exercise an American option, or the only day on which the holder can exercise a European option. For listed options, these expiry dates are standardised.
- f) The purchase of a call or a put: the buyer of a call option speculates on a rise in the price of the underlying asset during the term of the option, resulting in an increase in the value of the option right. Conversely, the buyer of a put option would profit from a drop in the price of the underlying asset.
- g) The sale of a call or put option: the seller of a call option expects the price of the underlying to drop whereas the seller of a put option would profit from a rise in the value of the underlying.

3) Risks

An option is an instrument for informed investors having knowledge and experience of derivatives and capable of bearing losses that may be unlimited for the seller when price fluctuations are not in line with the investor's expectations, as options can multiply losses because of their leverage.

On organised options markets, a central counterparty acts as intermediary between the buyer and seller of options to ensure that the market operates efficiently even in the event of the seller's default. Sellers of options are required to post an initial margin as a guarantee for their commitment. If the value of a seller's position deteriorates, the seller will be required to provide additional collateral in response to a margin call.

In any event, we advise you to refer to the paragraph explaining the risks in the key information documents relating to packaged retail and insurance-based investment products.

- a) Risk linked to changes in the price of the underlying
Options may be traded on stock exchanges or over-the-counter and follow the law of supply and demand. The option price depends on factors such as

whether there is sufficient market liquidity and the real or expected price trend of the underlying asset.

A call option loses value when the price of the underlying asset decreases, whereas the opposite is true for a put option.

The price of an option does not solely depend on price variations of the underlying asset. A series of other factors comes into play, such as the term of the option, the price volatility of the underlying asset, the level of interest rates, etc. Consequently, the value of an option may decline even if the price of the underlying asset remains unchanged.

b) Counterparty risk

A purchaser of an over-the-counter option has a counterparty default risk. This risk does not exist in the case of listed options: the clearing house will manage the margin calls of counterparties with a shortfall and pay the gains of counterparties with a surplus.

c) Volatility risk

The volatility of an underlying asset corresponds to the market's assessment of expected changes in relation to its average level.

The seller of an option bears the risk of an increase in volatility (implying a higher risk of a change in the price of the underlying); the buyer of an option bears the risk of a decrease in volatility (less risk of a change in the price of the underlying).

d) Interest rate risk

The risk-free rates of the currency of the contract will have an impact on the option premium.

e) Dividend risk

If the underlying pays dividends (funds, shares, ETF, index), any change regarding future dividend payout expectations will have an impact on the value of the option premium.

As a rule, any remuneration paid by an underlying will have an impact on the price of the premium.

f) Risk of physical delivery

Some contracts will provide for the physical delivery of the underlying. The investor must therefore have the financial resources to finance such delivery or to deliver the underlying.

g) Time value

The buyer of an option pays a premium linked to the option term: the longer the option, the more expensive it will be.

The time value represents the daily reduction in the value of the premium due to the passage of time. This risk is borne by the buyer of the option.

h) Liquidity risk

Depending on the underlying assets and expiration dates, the liquidity of some listed option contracts is very low when the likelihood of the option being exercised is too high or not high enough.

i) Leverage risk

When the price of the underlying asset varies, the price of the option may vary far more, as a result of the leverage. When dealing in options, investors increase the volatility of their yield, both upwards and downwards. The risk attached to the purchase or sale of an option increases with the amount of leverage.

j) The purchase of an option

The purchase of an option represents a highly volatile investment and the likelihood of an option expiring without any value is very high. In such a case, the investor loses the full amount of the option premium (plus fees). Following the purchase of an option, an investor can hold the position until the expiration date,

enter into an opposite transaction, or, for “American” options, exercise the option before the expiration date. A “European” option can only be exercised on its expiration date.

Exercising an option may entail either a cash settlement of the price difference or the purchase or delivery of the underlying asset. When exercising an option on an underlying futures contract, an investor effectively takes a futures position, which entails acceptance of the related obligations concerning margins.

k) The sale of an option

Generally speaking, the sale of an option involves a higher risk than its purchase.

Even if the price obtained for the option is fixed and limited, the potential loss for the seller is unlimited.

If the market price of the underlying asset varies unfavourably, the seller of the option will have to meet margin calls in order to maintain the position. In the case of the sale of an “American” option, the seller may have to conclude the transaction in the underlying asset at any time whenever the buyer chooses to exercise the option. If the option sold is on an underlying futures contract, the seller will acquire a futures position and will be subject to margin call obligations.

The seller's risk exposure may be reduced by holding a position in the underlying (securities, index or other) corresponding to that linked to the option sold. For example, the seller of a call option on shares may hold the underlying shares, but in such a case is at risk of a fall in the share price.

l) Risk of losing the entire investment

The loss to which an investor is exposed depends on the type of option and type of transaction:

- purchase of a call or put option: the loss is limited to the premium paid
- sale of a call option: the investor receives the premium but is exposed to an unlimited risk
- sale of a put option: the investor receives the premium but is exposed to a significant (but not unlimited) loss

C. Warrants

1) Description

A warrant is defined as the right to buy or sell a financial asset on predetermined terms of price and duration. Thus, a call warrant entitles the holder to buy an underlying asset at a fixed price (strike price) up until a specified date (maturity), and a put warrant entitles the holder to sell an underlying asset at a fixed price (strike price) up until a specified date (expiration date). Accordingly, buyers of warrants have a right, acquired for consideration, with regard to the underlying. If they decide to exercise that right, they may buy (call warrant) or sell (put warrant) the underlying at the strike price until the expiration date. A warrant is a negotiable security: A buyer of a warrant may sell it at any time on a stock exchange. The assets underlying warrants vary considerably and can involve, for example, shares, indices, currencies and commodities.

A warrant is a financial security that represents the purchase of an option.

2) Characteristics

A warrant therefore has the same characteristics as an option (see above. As a reminder, an underlying asset, expiration date, strike price) plus two other concepts:

- Parity: number of warrants that a holder must own to be able to buy (call warrant) or sell (put warrant) a unit

of the underlying asset at the strike price.

- Denomination: minimum quantity of warrants transferable. This is generally low in order to facilitate low-value transactions.

3) Risks

Warrant holders therefore bear not only the risks associated with any financial security (spread risk, liquidity, stock exchange listing, issuer risk) but also those borne by the buyer of an option (leverage, risk on the underlying, interest rate risk, volatility risk, time value and the potential loss of the entire premium paid).

In any event, we advise you to refer to the paragraph explaining the risk factors in the warrant's issuance prospectus and the paragraph explaining the risks in the key information documents relating to packaged retail and insurance-based investment products.

Investors are exposed to the risk of losing the entire amount of their investment.

D. Futures/forward contracts

1) Description

In a futures contract, the parties agree to buy/sell an asset on a future specified date at a specified price. These contracts were originally developed to hedge a market risk. They have subsequently become efficient instruments for speculation.

Futures are contracts traded on a stock exchange and they are standardised regarding the quantity of the underlying and expiration date of the transaction. A futures contract involves a commitment for both parties: the buyer of the futures contract undertakes, upon expiry of the contract, to receive the underlying, in consideration for payment to the seller of the predetermined purchase price. The seller of the futures contract undertakes to deliver the underlying on the expiry date in exchange for the predetermined purchase price.

Forward contracts are over-the-counter contracts traded directly between two parties in respect of a given underlying for a term determined by mutual agreement.

2) Characteristics

a) Initial margin requirement (for contracts traded on a stock exchange): whether it is a forward 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 contract value.

b) Variation margin: throughout the term of the contract, a variation margin is determined and required from the investor (margin call). It represents the accounting benefit or loss, derived from changes in the contractual price or in the price of the underlying asset. As the value of a contract varies according to various parameters (mainly the price of the underlying) either party may, during the lifetime of the contract, be in a loss-making position. Margin calls are intended to guarantee the final settlement of the contract. In concrete terms, the potential gains/losses are established and settled on a daily basis (mark-to-market).

c) Liquidation: in principle, at any time during the term of the contract, the investor may liquidate or settle the contract before the expiration date, either by selling the contract or by entering into an opposite contract. The liquidation closes established positions: gains and losses accumulated up to liquidation are realised.

d) Settlement: contracts not settled by their expiration date must be honoured by the contracting parties. Contracts having commodities as the underlying may in principle be performed by effective delivery of the

underlying or by a cash settlement. However, contracts with reference rates as the underlying (except foreign exchange) cannot be performed by effective delivery of the underlying. In case of effective delivery of the underlying asset, the contractual provisions need to be performed in full, whereas with cash settlement contracts, only the difference between the price agreed under the contract and the market price at the time of delivery is payable. Therefore, investors need more available funds for contracts which provide for the delivery of the underlying than for contracts providing for cash settlement.

3) Risks

Future/forward contracts are a sophisticated financial management tool. In addition, through the use of leverage, futures transactions can result in significant losses for investors speculating on the basis of incorrect expectations. In principle, losses can be unlimited. The aim of the initial margin system is to avoid an investor default which could in turn create a systemic risk for the market as a whole.

For a forward purchase, the potential loss is limited to the amount of the purchase (the buyer cannot lose more than the value of the security, if that falls to zero). On the other hand, in the case of a short forward sale (without holding the security in portfolio), the potential loss is in theory unlimited.

a) Risk of a variation in the price of the underlying

Despite a rise in the price of a contract or the underlying, the forward seller will have to deliver the underlying asset at the price initially agreed, which may be much lower than the current price. For the seller, the risk is therefore equal to the difference between the price agreed in the contract and the market value on the expiration date. Since the market value may theoretically rise unlimitedly, the potential loss for the seller is unlimited and may considerably exceed required margins. If the value of the contract or underlying decreases, the forward purchaser is still obliged to accept the underlying at the price initially agreed, which may be much higher than the current market price. For the buyer, the risk is therefore equal to the difference between the agreed contract price and the market value on the expiration date.

Thus, the purchaser's maximum potential loss will be the initially agreed price. However, this loss may significantly exceed the required margins.

Transactions are valued regularly (mark-to-market) and investors will need to have sufficient margin cover constantly at their disposal. In case the margin becomes insufficient during the transaction, a variation margin will be required from the investor at very short notice, failing which the transaction will be liquidated before expiry, in principle at a loss.

b) Difficult or impossible to sell off

To limit excessive price fluctuations, a stock exchange may fix price limits for certain contracts. In such a case, the investor must bear in mind that it may be very difficult, if not momentarily impossible, to unwind the contract when a price limit is reached. Therefore, all investors should enquire about the existence of such price limits before entering into a forward contract.

It will not always be possible (depending on the market and terms and conditions of the transaction) to enter into transactions at any time to avoid or reduce the risks associated with a current transaction.

c) Liquidity risk

As in the case of all financial assets, investors dealing in

forward contracts may be exposed to a liquidity risk. Investors may be confronted with this risk at any time. It is reflected in a very wide bid-ask spread meaning that the investor is required to trade at a disadvantageous price, or in a smaller quantity or find that the transaction takes far longer than usual to execute.

In the case of the sale of listed option contracts, the bid-ask spread may be wide and the volume traded may not be sufficient to enable an investor to close the entire position under satisfactory financial conditions within a reasonable period of time.

d) Acquisition of the underlying when selling short

A forward sale without owning the underlying at the time the contract is concluded (short sale) exposes the seller to the additional risk of having to buy the underlying asset in an extremely unfavourable current market in order to be able to comply with the commitment to effectively deliver the underlying asset at settlement.

e) Specific risks associated with over-the-counter forward transactions

There are specific risks associated with over-the-counter transactions, that is to say transactions concluded directly between two counterparties instead of on a stock exchange. These transactions are not standardised and enable investors to trade in a customised product, but with lower price transparency. In addition, investors are not protected by a central counterparty and a margin call system. There is therefore an additional counterparty risk.

f) Risk of losing the entire investment

Futures and forwards are commitments and do not always require the provision of initial margin. On the other hand, in the event of a loss because the contract is settled at maturity at a price that is far less favourable than the initial price, investors may be faced with a significant loss exceeding even the notional amount of the contract.

VI. STRUCTURED PRODUCTS

Structured products are generally issued by banks. They combine one or more financial instruments or, where applicable, other assets. At least one of these is a derivative. Together, they constitute a new investment product. Structured products may take different forms. Whether or not they offer a guaranteed coupon, there is sometimes a risk of receiving only part of the amount initially invested or even losing the total amount.

Two main groups can be distinguished:

- structured products whose capital is fully protected at maturity;
- structured products or structured deposits whose capital is only partially or not at all protected at maturity and whose redeemable value is calculated using a predetermined formula.

A. Structured products whose capital is protected

1) Definition

Structured products whose capital is protected are generally akin to bonds and are subject to the associated risks.

2) Risks

In any event, we advise you to refer to the paragraph explaining the risk factors in the structured product's issuance prospectus and the paragraph explaining the

risks in the key information documents relating to packaged retail and insurance-based investment products.

- a) As they are products that are akin to bonds, the risks associated with the latter apply: default, liquidity, interest rate, margin risks, etc. In addition, there is a risk of a lack of liquidity because of the absence of a secondary market on which an investment of this type can be sold before the contractual maturity date (this risk is higher if the product is not listed on a stock exchange).
- b) The remuneration (the coupon) of such a product may be set and known from the outset or may be variable and depend on the application of a predetermined formula. In such a case, it is possible that the amount of the coupon may be zero or considerably less than that initially expected.
- c) Risk of losing the entire investment
As in the case of traditional bonds, investors are exposed to the risk of losing the full amount of their investment if the issuer defaults even if the product has a capital protection.

B. Structured products or deposits whose capital is not protected

1) Definition

These products are designed in such a way that they pay a higher coupon than that offered by the market for a given borrower at a given time. In exchange, the capital of this type of product is not protected. The amount repaid at maturity is calculated according to a pre-determined formula, generally indexed to changes in the price of a share, a basket of shares, a benchmark index or an exchange rate.

Structured products are issued in the form of debt securities or fund units. These securities are transferable and in some cases can be traded on a stock exchange.

Structured deposits are bilateral agreements between one party and a bank that will hold the funds and repay the capital at maturity in accordance with a formula determined at the time the deposit is made and indexed to the price of an underlying (FX structured deposits are linked to an exchange rate).

2) Risks

In any event, for structured products and FX structured deposits, we advise you to refer to the paragraph explaining the risk factors in the structured product's issuance prospectus and/or the paragraph explaining the

risks in the key information documents relating to packaged retail and insurance-based investment products.

- a) As the debt security (or deposit) is issued by a bank, the following risks apply: credit risk, liquidity risk, margin risk, interest rate risk, risk of the absence of a secondary market on which investors can sell the product to recover the capital invested before maturity (this risk is higher if the product is not listed on a stock exchange).
- b) The remuneration (the coupon) of such a product may be set and known from the outset or may be variable and depend on the application of a predetermined formula. In such a case, it is possible that the amount of the coupon may be zero or considerably less initially expected.
- c) Early redemption risk: some structured products are callable by the issuer, which means that they may be redeemed by the issuer prior to the maturity date and, in such a case, the investor may not be able to re-invest the funds in a product offering a similar return.
- d) Correlation risk: some structured products are linked to several underlyings and entail a risk of correlation between the underlyings: the risk that all the underlyings trend in the same direction whereas in reality at least one of them behaves differently to the others.
- e) Options related risk: structured products are built with options which for the most part are sold to obtain the projected return. The price of structured products (or structured deposits) may then vary because of a change in the one the option's market parameters: change in the price of the underlying, volatility, the projected return of the underlying, the contract's interest rates.
- f) Risk of losing all or part of the investment : Investors are exposed to the risk of losing all or part of their investment depending on the formula for calculating the principal amount to be repaid at maturity. If the underlying(s) should fall significantly from the initial level, the capital may be repaid at less than par value.

C. Functioning and performance

Given the possible universe of structured products, we strongly advise investors to read the documents made available by issuers explaining how the products work and their characteristics.

Risks associated with credit-financed financial investments

I. Lombard loan products

The use of credit facilities (for example a Lombard loan) increases the risk taken by the borrower when such facilities are used to finance the purchase of financial products. The borrower has a leveraged risk on the financial assets in which the investment is made.

A. Definition

These credit facilities enable the investor to finance the purchase of financial assets. By financing these financial products through borrowing, the investor has an increased capital risk. This is commonly referred to as leverage.

B. Risks

- 1) The investor has to pay interest throughout the life of the loan, according to the applicable interest rate.
- 2) The investor has a leveraged risk on the financial assets in which the investment is made, thereby amplifying the potential loss on the invested capital. This capital loss increases if the proportion of debt used for the financing increases.

	Financing method	Initial amount invested in a financial product	Loss on the financial product	Value of the financial product after application of the loss	Credit cost during the financing term	Portfolio value	Capital value	Capital loss
Capital	100	200	10%	180	1	179	79	21%
Debt contracted	100							

	Financing method	Initial amount invested in a financial product	Loss on the financial product	Value of the financial product after application of the loss	Credit cost during the financing term	Portfolio value	Capital value	Capital loss
Capital	50	200	10%	180	1	179	29	42%
Debt contracted	150							

- 3) These credit facilities are subject to margin calls. If these margin calls are not met, the financial institution that granted the credit facility will sell the assets on the market (risk of price volatility and liquidity as regards the financial assets thus sold).
- 4) Risk of losing the entire investment
Investors are exposed to the risk of losing the entire amount of their investment.

This document is intended solely for information purposes and does not claim to describe all the risks inherent in investments in financial instruments. Its aim is rather to provide certain basic information in order to raise awareness among the Bank's clients of the existence of the risks inherent in any investment in a financial instrument. Clients should not enter into any investment transaction before being sure that he/she has fully understood all the risks and that the investments are appropriate in terms of his/her assets and needs. This document is not intended as investment advice or research; it contains only a summary of the characteristics of certain products offered by the Bank. The information is valid on the date hereof but may vary over time.

This document does not cover the tax aspects relating to investments in the financial instruments described below. The tax treatment will depend on each client's individual situation and is subject to change. Each client is advised to seek specific tax advice. This document does not take account of the impact of any costs and fees in connection with the purchase and/or management of the financial instruments described below.