OVERVIEW OF THE MAIN CHARACTERISTICS AND RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

I. Basic risks

1) Economic risk
Prices of the securities are always influenced by changes in the activity of a market economy, and fluctuate in line with such activity. The duration and scope of economic upturns and downturns vary, as do the repercussions of those variations on the different sectors of the economy. In addition, the economic cycle tends to differ from country to country.

Failure to take these factors into consideration or an inaccurate analysis of economic development may lead to losses being incurred. The effect of an economic cycle on price changes must therefore be taken into account.

2) Inflation risk
Currency devaluations may cause an investor to incur a financial loss. It is therefore important for investors to take account of the real value of their existing assets as well as the real return that can be achieved from these assets. Real interest rates should be used for the purpose of calculating this return. i.e. the difference between the nominal interest rate and the rate of inflation.

3) Country risk
In spite of being solvent, it is possible that a foreign investor might not be able to make the interest payments, or even to repay the principal sum, on a loan due to the unavailability of foreign currencies or limits on foreign exchange transfers in the debtor's country of origin. Country risk includes the danger of economic as well as political instability.

As a result, payments to which the investor is entitled may be defaulted on in the event of the consequent unavailability of foreign currencies or limits on foreign exchange transfers. With regard to securities issued in a foreign currency, investors risk receiving loan repayments in a currency that is no longer convertible because of exchange controls. There are no means of protection against such risks.

4) Exchange rate risk
Due to the fact that exchange rates fluctuate, exchange rate risk exists wherever securities are held in a foreign currency.

The essential factors affecting a country's foreign exchange rate are its rate of inflation, the gap between domestic and foreign interest rates and the assessment of economic trends, the global political situation and the safety of the investment. In addition, psychological factors such as internal political crises are likely to weaken a currency's exchange rate.

For accounts in euros or foreign currencies, the Bank has the right to modify at any time the interest rates, value dates and conditions depending on market conditions.
In exceptional market circumstances, in relation with the reference currency, the application of negative interest rates on customers' deposits can be decided by the Bank.
In particular, considering that the interest market rate may influence the interest rate applicable to the client, if the rate was to be negative, this rate will be reflected in whole or in part by the Bank to the Customer, even in case of positive balance applying a negative interest rate to the said account.

5) Liquidity risk
Insufficient market liquidity may prevent investors from selling securities at market prices. Fundamentally, a distinction has to be made between a lack of liquidity caused by the laws of market supply and demand and a lack of liquidity caused by the inherent characteristics of securities or market practice.

There is a lack of liquidity caused by market supply and demand when a financial instrument is almost exclusively in supply (seller's price or bid) or almost exclusively in demand (buyer's price or offer) at a certain price. In these circumstances, buy or sell orders cannot be executed immediately and/or only partially (partial execution) and/or at unfavourable terms. In addition, higher transaction costs are likely to be applied.
A lack of liquidity caused by the inherent characteristics of securities or market practice may arise, for example, because of lengthy transcription procedures involving registered shares, long performance delays caused by market practice or other trading restrictions that cannot be covered through the sale of securities.

6) Psychological risk
Irrational factors can affect the general movement of prices and exchange rates, e.g. trends, opinions or rumours likely to cause share prices to drop substantially, even though there have been no unfavourable developments in the financial situation or the future prospects of businesses.

7) Credit risk
The purchase of securities financed by loans is associated with additional risks. Supplementary collateral may be required if the price of the pledged assets changes and the credit limit guaranteed by the pledge is exceeded. If the investor is unable to provide the additional collateral, the Bank may be forced to sell the deposited securities at an unfavourable time. Furthermore, the loss incurred due to an unfavourable movement in the price of a financial instrument is likely to be greater than the initial investment. Fluctuations in the prices of pledged securities may have a negative effect on 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, chances for gain increase, as do risks of loss. The extent of those risks will depend on the amount of leverage associated with the investment: the greater the leverage, the greater the risks.

II. Specific risks associated with investments

A. Bonds

Bonds are negotiable debt instruments issued in bearer, registered or dematerialised form by a company or a government body to creditors and whose par value at issue represents a fraction of the total amount of the debt. 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).

Characteristics:
- *Return*: interest payments, possible increase in value
- *Duration*: short term up to 4 years), medium term (4-8 years) or long term (more than 8 years)
- *Repayment*: unless stipulated otherwise, the bond is repaid either at the maturity date, or by means of annual payments, or at different dates determined by drawing lots
- *Interest*: depends on the terms and conditions of the bond; e.g., fixed interest for the entire duration or variable interest often linked to financial market rates (e.g., FIBOR or LIBOR)

Risks:

1) Insolvency risk
The issuer risks becoming temporarily or permanently insolvent, resulting in its incapacity to repay the interest or redeem the bond. The solvency of an issuer may change due to general economic conditions and/or to changes specific to the issuing company and its economic sector and/or the countries concerned as well as political developments with economic consequences.

Deterioration of the issuer's solvency will influence the price of the securities it issues.

2) Interest rate risk
Uncertainty concerning interest rate movements means that purchases of fixed-rate securities carry the risk of a fall in the prices of the securities if interest rates rise. The longer the loan duration and the lower the interest rate, the higher a bond's sensitivity to a rise in the market rates.

3) Early redemption risk
The issuer of a bond may include a provision allowing early redemption of the bond 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
Bonds redeemable by drawing have a maturity that is difficult to determine, so unexpected changes in the yield on these bonds may occur.

5) Risks specific to certain types of bond
Additional risks may be associated with certain types of bond, e.g., floating rate notes, reverse floating rate notes, zero bonds, foreign currency bonds, convertible bonds, subordinated bonds, etc.
For such bonds, the investor is advised to make inquiries about the risks referred to in the issuance prospectus and not to purchase such securities before being certain that all risks are fully understood.
In the case of subordinated bonds, it is in the interests of investors to enquire about the ranking of the debenture compared to the issuer's other debentures. Indeed, if the issuer becomes bankrupt, those bonds will only be redeemed after repayment of all higher ranked creditors.
In the case of reverse convertible notes, there is a risk that the investor will not be entirely reimbursed, but will receive only an amount equivalent to the underlying securities at maturity.

B. Shares

A share is a certificate issued to a shareholder to establish his/her rights in a company. Shares come in the form or bearer shares or registered shares. One share represents a fraction of a corporation's share capital.

Characteristics:
- *Yield*: possible dividend payments and increase in value of the security
- *Shareholders' rights*: financial and ownership rights: these rights are determined by law and by the issuing company's articles of association
- *Transferability*: unless otherwise provided for by law, transfers of bearer shares do not entail any formalities. However, transfers of registered shares are often subject to limitations

Risks:

1) Company risk
A share purchaser does not lend funds to the company, but makes a capital contribution and, as such, becomes a co-owner of the corporation. He thus participates in its development as well as in chances for profits and losses, which makes it difficult to forecast the precise yield on such an investment. An extreme case would be if the company went bankrupt, thereby wiping out the total sums invested.

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 those cycles.

General market risk must be distinguished from the specific risk attached to the company itself. Both risks influence the evolution of share prices.

3) Dividend risk
The dividend per share mainly depends on the issuing company's earnings and on its dividend policy. In case of low profits or even losses, dividend payments may be reduced or not made at all.

C. Warrants

Warrants represent economic and property rights, as set out in the terms and conditions of these bonds. This generally concerns debts of a nominal value that attract a credit entitlement.
It must be kept in mind that there is a difference between fixed or variable distribution warrants and warrants with option or conversion rights.

Risks:

1) Risk of non-distribution or reduced payment
In the event of losses suffered by the issuing company, there is a risk that interest will not be distributed where no minimum interest has been provided for as well as the risk of a reduction in the payments of the principal.

2) Issuer risk
There is a risk that the total sum invested will be lost if the issuing company goes bankrupt.

D. Investment funds

An investment fund is a company or an organised joint ownership that obtains money from a number of investors with a view to placing it in different assets in accordance with the risk-spreading principle and enabling its shareholders or members to benefit from the results of the management of their assets.

Characteristics:
- *Open-ended funds*: in an open-ended fund, the number of shares and participants 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 shares at the agreed redemption price and according to contractual provisions.
- *Closed-end funds*: the issue 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.

Risks:

1) Management risk
Since the return on investment shares depends on, among other factors, the skills of the fund managers and the quality of their decisions, assessment errors in fund management can lead to losses.

2) Risk of a drop in share prices
Investment fund units or shares are exposed to the risk of a drop in their prices. Such price decreases reflect the fall in value of the securities or currencies that make up the fund's asset portfolio. The more diversified the fund, the lower the risk of losses. Inversely, risks are more important for more specialised and less diversified funds. It is therefore important to pay attention to the general and specific risks attached to financial instruments and currencies in which a fund invests.

The investor should obtain information about a fund by consulting, among other sources, its prospectus.

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E. Derivatives

Derivatives are financial instruments whose value varies in line with the value of the underlying asset. The underlying asset may be a market index, an interest rate, a currency, the price of a raw material or even another derivative.

There are two main types of derivatives transactions:

a) *Options 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 committed while the other (the buyer of the option) is free to exercise the option or not;

b) *futures and forward transactions*, where the parties enter into a transaction which must be carried out at a specific date in the future. In a forward transaction, the parties commit themselves irrevocably to carry out the transaction on the specified date.

a) Option transactions

Options are derivative instruments whose value varies according to the value of the underlying asset. After paying a premium to his counterpart, the buyer of an option receives the right to buy (call) or to sell (put) the underlying asset at maturity or during a certain period for a base price.

Characteristics:

- *Duration*: the duration of the option starts from the day of subscription and ends on the day the option right matures.
- *Link between the option and the underlying asset:* this link characterizes the number of units of the underlying asset that the holder of the option has the right to purchase (call option) or to sell (put option) by exercising his option right.
- *Strike or exercise price*: the exercise price is equal to the pre-agreed price at which the holder of the option may purchase or sell the underlying asset when exercising the option.
- *Leverage*: any change in price of the underlying asset results in a proportionally higher change in the price of the option premium.
- *Purchase of a Call or a Put:* the buyer of a call option speculates on a rise in the price of the underlying during the lifetime of the option, resulting in an increase of the value of the option. Conversely, the buyer of a put option would profit from a drop in the price of the underlying asset.
- *Sale of a Call or a Put:* the seller of a call option expects the price of the underlying asset to drop whereas the seller of a put can profit from a rise in the value of the underlying asset.

Risks:

1) Price risk

Options may be traded on stock exchanges or over the counter and are subject to the law of supply and demand. The option price depends to a large degree on factors such as whether there is a sufficiently liquid market for the option 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. Other factors may come into play, such as the duration of the option (time value) or the frequency and intensity of changes in the value of the underlying asset. Consequently, the value of an option (premium) may decline although the price of the underlying asset remains unchanged.

2) Leverage risk

Due to the leverage effect, price variations in the option premium are generally proportionally higher than changes in the underlying asset price. Thus, the holder of an option may benefit from high gains or may incur high losses. The risk associated with the purchase of an option increases with the amount of leverage.

3) Option purchase risk

The purchase of an option represents a highly volatile investment. The likelihood of an option maturing without any value is relatively high. In that case, the investor loses the option premium as well as commissions paid for the option purchase. After purchasing an option the investor can either maintain his position until maturity or try to sell the option before maturity.
Exercising an option may involve either settlement of the difference between the exercise price and market price or purchase or delivery of the underlying asset. When exercising an option on a futures contract, an investor effectively takes a position in futures, which would entail the acceptance of some obligations concerning security margins.

4) Option sale risk

The sale of an option requires, generally speaking, higher risk-taking than the purchase of an option. Indeed, even if the price obtained for an option is fixed, the losses the vendor may incur are potentially unlimited.
If market prices for the underlying asset vary unfavourably, the seller of the option will have to adjust his security margins to maintain his position. If the sold option is an «American» option, the seller may have to settle the transaction in cash or buy or deliver the underlying asset at any moment until expiry. If the option is on a futures contract, the seller will acquire a futures position and will have to respect his obligations concerning security margins.
The seller’s risk exposure may be reduced by holding a position on the underlying asset (securities, index or other) corresponding to the option sold.

b) other futures and forward transactions

Futures are contracts traded on a stock exchange. They are standardised with regard to the quantity of the underlying asset and the expiry date of the transaction. Over the counter (OTC) or forward contracts are contracts that are not traded at a stock exchange and which may be standardised or individually negotiated between buyer and seller.

Characteristics:

- *Initial margin*: be it a future purchase or sale of an underlying asset, the initial margin is fixed at the time the contract is agreed. This margin is generally expressed as a percentage of the value of the contract.
- *Variation margin*: throughout the duration of the contract, a variation margin is periodically calculated and payable by the investor. It represents the accounting profit and loss and results from changes in the value of the contract and of the underlying asset. The variation margin can be several times that of the initial margin. Throughout the duration of the contract and in the event of it being liquidated, the methods of calculating the variation margin depend on the stock exchange rules and the terms and conditions of the individual contracts.
- *Liquidation*: in general, at any time during the contract, the investor may liquidate or terminate the contract before it expires, either by selling the contract or by agreeing an opposing contract. Liquidation ends the risk positions agreed in the contract, and gains and losses accumulated prior to the liquidation are realised.
- *Execution*: contracts that have not been cancelled before their expiry date must be honoured by the parties involved. Contracts that have a tangible property asset as their underlying asset may be settled just as well by the effective delivery of the underlying asset as by compensation in cash, while contracts that use reference rates (with the exception of exchange rates) as their underlying asset cannot be settled by the effective delivery of the underlying asset. In the case of an effective delivery of an underlying asset, the contractual provisions must be carried out in full, whereas for cash settlement contracts, only the difference between the contract price and the market price at the time of delivery is payable. Investors therefore need more available funds for contracts providing for the delivery of the underlying asset than they do for contracts providing for cash settlement.

Risks:

1) Modification of the value of the contract or of the underlying asset:

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If the value of the contract or the underlying asset increases, the forward seller will nevertheless have to deliver the underlying asset at the initially agreed price, which may be a lot lower than the current price. The risk for the seller equals the price agreed on when the contract was signed and the market value at the settlement date. As the market value could theoretically rise without limit, the potential loss for the seller is similarly unlimited and could significantly exceed the required margins.

If the value of the contract or the underlying asset decreases, the forward buyer will still have to accept the asset at the price agreed on in the contract, which could be significantly higher than the market value at the time the transaction is completed. The most the purchaser could lose is the initially agreed price. This loss may however significantly exceed the required margins.

Transactions are regularly evaluated (mark-to-market), and the investor will need to have sufficient market cover permanently at his disposal. In the event that the margin becomes insufficient during the forward transaction, a variation margin will be required from the investor at very short notice. Failure to respond to this margin call will result in the transaction being liquidated before the end of the term.

2) Difficult or impossible sell off

In order to limit excessive price fluctuations, a stock exchange may fix limits for certain contracts. In such a case, the investor has to bear in mind that when a price limit is reached, it could prove very difficult, and perhaps briefly impossible, to sell off the contract. The investor should make enquiries about the existence of such price limits.

It will not always be possible (depending on the market and the terms and conditions of the contract) to sell off contracts at any moment in order to avoid or reduce the risks of a current transaction.

Where stop-loss transactions are possible, they may only be executed during bank business hours. They do not allow limiting losses to the indicated amount, but will be carried out once the limit is reached in the market and will then become “market orders”.

3) Buying an underlying asset for a short sale

To sell an underlying asset without owning it at the time of agreeing the contract (short sale) means running the risk that the seller will have to buy the underlying asset at an extremely unfavourable market price in order to be able to honour the obligation to deliver the asset at settlement.

4) Specific risks associated with over-the-counter (OTC) transactions

The market for standardised OTC transactions is in general liquid and transparent, and it is usually possibly to sell off contracts. There is no market for OTC transactions that are not standardised, and liquidation is therefore only possible with the agreement of the other party.

F. “Alternative” investments and off-shore funds

An “alternative” investment means an investment in domestic and foreign investment funds, which is completely different from the normal investment in shares and bonds.

The best known forms of alternative investments are hedge funds, whose style of investment most often consists of short sales, leverage effects and derivatives. Investments in private equity funds also feature in this category (venture capital, financing for the acquisition of companies). The term ‘off-shore funds’ relates to investment funds located in off-shore centres, e.g. the Bahamas, Bermuda, the Cayman Islands, Panama or the Netherlands Antilles.

Risks:

1) Leverage

In this domain, investment strategies may be linked to high risks. For example, by using the leverage effect, a slight change in the market could result in large gains or substantial losses. In some situations, the entire investment could be lost.

2) Lack of transparency

Investors in alternative investments often have only a little information available to them. The sometimes very complex strategies of the investment funds frequently lack transparency for investors. Strategy changes that could lead to a significant increase in risks are often difficult to understand or even completely undervalued by investors.

3) Potential lack of liquidity

Alternative investments have extremely varied degrees of liquidity. Sometimes liquidity can be very limited. Share redemption for hedge funds can consequently only be possible either monthly, quarterly or annually. With regard to investment in private equity funds, the lock-up period could last more than 10 years.

4) Minimal regulation

Many funds in this sector are located in off-shore centres (off-shore funds) that often impose only minimal regulation on the funds.

A number of problems or delays can therefore occur during the execution of buy or sell orders with regard to these funds for which the Bank cannot be held liable. The investor’s rights cannot be systematically guaranteed.

The investor interested in alternative investments and particularly in off-shore funds needs to be conscious of these risks. Investment products should be carefully studies before proceeding with any investment.

This document does not claim to cover all of the risks associated with investments in financial instruments. Its objective is rather to provide some basic information and to make the Client aware of the existence of the risks inherent in all such investments. The Client is advised not to proceed with any investment before learning as much about it and the risks associated with it as possible and to choose an investment that suits both the funds available for the purpose and his needs.

Luxembourg, ______________________

Client’s Signature : ____

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