STOCK MARKET AND FINANCIAL MARKETS

The financial markets constitute one source of finance for the economy. They enable private and public companies, local governments and the State to finance their investments by raising funds, directly or indirectly, from investors.

The primary market is where "new" securities become available to investors. These can be newly created securities (in which case, we refer to an "issue") or the introduction on the market of new or previously unlisted companies (known as a "flotation").
The securities are then traded on the stock markets, which constitute the secondary market.

In Luxembourg, financial market activities are supervised by the Commission de Surveillance du Secteur Financier (CSSF), an independent body with its offices at 110, route d'Arlon L-2991 Luxembourg.

The CSSF's task is to supervise:

- the protection of savings invested in financial instruments and any other investment products for which funds are raised from the public;
- information provided to investors;
- the smooth operation of the financial markets.

BASIC RULES FOR INVESTING IN THE FINANCIAL MARKETS

I. Constructing and managing a portfolio

There are a number of possibilities.

- *Personal management:* you manage your assets yourself and place all buy and sell orders.

- *Collective management*: you place your assets with investment funds, which place them in their portfolio, together with the assets of other investors, and then carry out overall management of the portfolio in question.

- *Advised management:* you manage your assets yourself but you benefit from the advisory services of your banker.

- *Delegated or mandated management*: you define the investment objectives and the acceptable level of risk, your banker looks after the personalised management of your assets in line with the investment policy agreed with you.

II. Defining investment objectives

A prerequisite to making any investment decision involves taking account of your short- and long-term projects.
The choice of investment should always take into account two vital and inseparable elements:

- the duration of the investment;
- the acceptable level of risk.

Return is always linked to risk: an exceptional investment performance cannot be achieved without taking a corresponding risk.
For this reason, a cash investment should be placed only in risk-free products.

III. Availability

To manage a portfolio personally, the investor must have some training in market mechanisms. Your investment portfolio needs to be monitored regularly.

IV. Knowing your investment limits

It is inadvisable to invest a sum that you could need in the short term. If you need the funds you may be obliged to sell when you do not wish to do so and at the wrong time.

V. Staying informed

Avoid reacting emotionally. Take the time to find out all the necessary information before buying a stock.

VI. Spread the risks

Diversify your investments in terms of economic sectors, companies and geographic regions.

VII. Focus your efforts

Avoid introducing an excessive number of investments into the portfolio in order to be able to monitor those you have more efficiently. Avoid taking excessively small positions so as not to load the portfolio with fixed expenses.

VIII. Buy well and sell well

Limit the price of orders and know when to take profits.

IX. Play the long term

Investments in the financial markets offer good prospects of returns over a long-term horizon, as long as your portfolio is sufficiently diversified.

STOCK MARKET ORDERS

I. Market quotation

The more liquid securities are quoted continuously with auction matching at market opening and closing. The less liquid stocks are quoted only by auction matching.

The continuous market records trades as they occur once an agreement between sellers and buyers is possible. Accordingly, there is an unlimited number of quotes in any trading session.

Quotation by auction involves periodic quotations rather than continuous quotations. Initially, bid and ask prices accumulate without any quotes. When the quote is made, bid and ask prices are matched and the price at which the largest number of trades is possible is quoted. Depending on the market, auction matching may be electronic and may take place once or several times a day.

II. Stock market orders

A stock market order form contains a number of mandatory fields, which are, in principle, as follows:

- Type of trade = buy or sell;
- Type of security = ISIN code;
- Number of securities = quantity;
- settlement method = cash (or the deferred settlement service ("DSS") is possible for some securities, as explained in more detail below);
- validity = day, month, on or up to a given date;
- price terms = limited or other.

On most stock markets, as transmission of orders is immediate, execution can also be immediate. An order can be cancelled only if it has not yet been executed.

Remark:
From the moment the order is placed until its execution, the principal must have the required margin available, i.e. cash or securities deposited with his financial intermediary. The margin guarantees the proper performance of the intended transaction.

III. Validity

On most stock markets, orders have an expiry date: the validity setting. A number of choices are available.

- Good for day: the order is valid only for trading on that day. If it has not been executed at closing, the order expires and, if desired, a new order must be placed;

- Good for month: the order will expire on the last trading day of the month in question;
  - For spot trades, this is the last trading day of the month;
  - For deferred settlement transactions, the order expires on the account day, i.e. five trading days before the last trading day of the calendar month.

- Good till specified: it is possible to set a date. Orders on securities traded on the spot market may be valid until the end of the current calendar month or be carried over to the following month.

IV. Price terms

- Limit order

This is the simplest and most widely-used type of order. It sets the maximum price a buyer is willing to pay or the minimum price a seller is willing to accept.
During the trading session, these orders remain in the order book until a counterparty accepts these terms.
It gives the investor some control over the execution price and hence protection against price fluctuations. Such orders can be executed in full or in part.

- Market order

These are orders with no specified price limits.
At opening, this type of order takes precedence over all other order types and is executed for the maximum quantity available when matched against orders in the opposite direction. It replaces the former "at any price" order, but unlike the latter, it can be executed fully or in part.

This type of order offers no control over the execution price. There is a risk of a significant difference on illiquid stocks and stocks quoted at fixing.

- Market to limit order

These are orders with no specified price limits. When entered in the market:

- At opening, it is converted into an "at opening price" order. It is executed according to matching orders in the order book after taking into account market orders and limit orders;
- During the trading session, it is converted into a limit order at the best bid price (for sell orders) or at the best ask price (for buy orders).

If not executed in full, the remainder is converted into a limit order at the execution price. This type of order does not protect the principal from the possibility of his order being executed in several stages.

- Stop orders

This type of order enables an investor to buy or sell securities only once a given price threshold has been reached. A trigger is specified beyond which it becomes a market order.
The trader has no control over the execution price. There is a risk of a significant price difference on illiquid stocks.

- Stop limit orders

This enables traders to buy or sell securities within a given range once the trigger threshold has been reached. The order specifies a maximum price limit for a buy order and a minimum price limit for a sell order.

It gives the trader some control over the execution price and offers protection against any trend reversals.

- At-last orders

This type of order is reserved for very liquid securities with a specific price quotation period just before closing of the stock market concerned and can only have a day validity. It allows the execution price to be known in advance, subject to quotation and a sufficient quantity being available.

OVERVIEW OF KEY FEATURES AND RISKS RELATING TO FINANCIAL INSTRUMENTS

The information below is intended to provide an overview of the key features and risks of the financial instruments

in which you may invest. If you have specific questions, or if you are interested in specific financial instruments, please contact us if you require further information.

However, this document does not address the tax and legal consequences of transactions on financial instruments. We therefore encourage you to seek personalised advice on these matters from specialists before proceeding with any investment.

These risks apply to all types of investment. However, depending on the financial instrument concerned, one or more of the risks described below may apply cumulatively, resulting in an overall increase in the risk level for the investor.

Moreover, investors are specifically reminded that the financial markets on which their investment transactions will take place usually publish a certain number of documents relating to trading on these markets and the associated risks. The Banque Transatlantique Luxembourg (hereinafter, the "**Bank**") invites investors to refer to the documents published by each of the financial markets on which they intend to trade, and each investor, by signing this document, recognises and accepts that the Bank may presume that each time he transmits an investment order on a financial market, he has previously reviewed any relevant document issued by the market concerned.

I. Overview of basic features and risks

A. Cyclical risk

Changes in the activity of the economy of a market always have an impact on movements in the price of financial instruments and exchange rates. Prices fluctuate more or less in step with the downward and upward phases of the economy. The duration and extent of the economic downward and upward cycles vary, as do the effects on the various economic sectors. Economic cycles may also differ according to country.

Failure to consider, or erroneous analysis of, changes in the economic environment during an investment decision could result in losses. In particular, the effects of the economic cycle on changes in the price of investments must be taken into consideration.

In view, *inter alia*, of changes in the economic environment, the past performance of a financial instrument does not guarantee its future performance. Reductions in value, resulting in losses for the investor, are always possible.

Investors must therefore always ensure that their investments are appropriate in view of the economic environment and reallocate them if necessary.

B. Inflation risk

Investors are likely to incur financial losses relating to investments made after a decline in the value of the currency. In this regard, such a decline in value might affect the real value of the existing assets, as well as the real return to be obtained by means of these assets. Investments should therefore be oriented in terms of real returns, i.e. the difference between the interest rate and the inflation rate for fixed rate products.

If the inflation rate exceeds the return generated by the financial instruments (gains in capital and interest), this will reduce the value of the capital actually invested.

C. Country risk and transfer risk

Foreign debtors, despite being solvent, may be unable to make interest payments or pay off their debts when they fall due, or may default completely, because there is no transfer capacity or availability in their country of origin, due, for example, to economic, political or social instability in the country in question.

Thus, payments to which the investor is entitled may not materialise due to a lack of foreign currency or limits on transfers abroad. With regard to financial instruments issued in a foreign currency, the investor might receive payments in a currency that is no longer convertible due to exchange restrictions.

Moreover, even in the absence of any crisis, state intervention in some sectors of the economy (e.g. nationalisation) could have an effect on the value of investors' assets. In certain extreme cases, investors' assets might even be confiscated or frozen by the local authorities, or the rights of investors might be restricted.

In principle, there is no way of protecting against such risks. However, the country ratings published in the financial press may be a useful indication for investors in this regard.

Finally, and more generally, unstable political and/or economic and/or social situations in some countries may result in rapid share price fluctuations.

D. Currency risk

As currencies fluctuate in relation to each other, there is a currency risk when financial instruments are held in a

foreign currency. Depending on the exchange rates, the same investment could generate either a profit or a loss.

Moreover, as business activities are connected, to a greater or lesser extent, to exchange rates, changes in these rates are likely to affect the value of the financial instruments that businesses issue.

The main factors influencing a country's currency price are, in particular, the country's inflation rate, differences in interest rates and productivity compared with other countries, the assessment of trends in the economic environment, the global political situation and investment safety. Furthermore, events with a psychological effect, such as crises of confidence in political leaders, are likely to weaken a country's currency.

E. Liquidity risk

For investors, liquidity is the option of being able to sell the financial instruments they hold at any time for their market value.

Therefore, if market liquidity is insufficient, investors risk not being able to sell their financial instruments at the market price. In principle, there is a difference between a lack of liquidity due to changes in supply and demand, and a lack of liquidity due to the inherent features of the financial instrument or market practice.

A lack of liquidity due to changes in supply and demand exists when there is exclusively, or almost exclusively, supply (ask price) or exclusively, or almost exclusively, demand (bid price) for a transferable security at a certain price. In these circumstances, the execution of a purchase or sale agreement is not immediately realisable and/or only partially realisable (partial execution) and/or realisable under adverse conditions. Higher transaction costs are also likely to be applied.

A lack of liquidity due to the inherent characteristics of the financial instrument or market practice may occur, for example, in the event of a long process of transcription of registered stock trading, long execution times due to market practice or other trade restrictions, a short-term need for liquidity that cannot be covered by the sale of financial instruments or long periods of announcement before proceeding with a transaction, especially in the case of alternative funds.

F. Psychological risks

Irrational factors may affect overall price developments, such as trends, opinions or rumours likely to cause prices to drop substantially, even though the financial position and outlook of the companies concerned have not altered for the worse.

G. Credit risk

Purchases of securities financed through credit are associated with additional risks. First of all, additional collateral may be required - sometimes in the very short term - if the credit is exceeded due to changes in the price of the pledged assets. If the investor is unable to provide the additional collateral, the bank may be obliged to sell the financial instruments deposited at a disadvantageous time. Furthermore, the loss incurred due to an unfavourable price trend is likely to be greater than the initial investment. Fluctuations in the prices of the pledged financial instruments may therefore have a negative effect on the ability to repay the loans.

It is important to be aware that the leverage caused by purchases of financial instruments through credit generates proportionally greater sensitivity to price, and thus presents opportunities for higher earnings but also, at the same time, a greater risk of losses. The risks associated with such purchases increase in line with the amount of leverage.

H. Interest rate risk

Generally speaking, any change in interest rates, whether long-term or short-term, may have marked adverse effects on the value of financial instruments.

I. Risk of default by the issuer or by the settlement and clearing system

The insolvency of the issuer of financial instruments or the settlement and clearing system on which these instruments are traded may result in the partial or complete loss of the funds invested for the investor.

J. Additional risks on emerging markets

Emerging markets are the markets of countries with medium or low income per capita as defined by the World Bank. More specifically, they are markets in countries which have a certain degree of political instability, whose markets and economic growth are relatively uncertain, whose financial markets are still under development and whose economies are not thriving. A large number of countries in Latin America and Eastern Europe and some Asian countries fall into this category.

Generally speaking, the risks described above are amplified on these markets.

Political or economic changes (e.g. inflation, interest rates) will thus have more influence on the value of investments in emerging markets than in other countries. Similarly, emerging markets often react more strongly and for a longer time to natural disasters or acts of war.

Moreover, emerging markets often have less developed settlement and clearing rules for transactions, so that accounting errors or delivery problems may often arise.

Lastly, prudential control over these markets and rules to safeguard investors are often weak.

K. Other basic risks

Risks associated with information: this risk corresponds to the risk of making inopportune investment choices due to a lack of information or to incomplete or incorrect information. This may be due to the use by the investor of unreliable sources, or poor understanding by the latter of the information that has been supplied, or may relate to communication errors.

Transmission risks: when placing an order, the investor must provide certain information required for its execution to the bank (instrument , order type, volume, execution date, etc.). The more precise the order is, the more the risk of a transmission error is minimised.

Risks associated with transaction costs: the bank, or other national or foreign intermediaries, may be involved in order execution (e.g. brokers), in which case the expenses and charges of these individuals will be charged to the investor.

An investment only becomes profitable when all these costs are covered.

II. Overview of the basic features and risks of some market products

Financial markets products can be divided into different types of financial instruments.

A. Time deposits

These are cash deposits remunerated at a fixed date and at a predetermined rate.

(i) Features:

- *Return*: interest payments;
- *Duration*: short-term (< 4 years), medium-term (4-8 years) or long-term (> 8 years);
- *Interest*: interest depends on the procedures for each deposit: e.g. fixed interest for the entire duration or variable interest often linked to financial market interest rates (e.g. Libor or Euribor).

(ii) Benefits

Depending on market conditions, these products may generate better returns than fixed-return products.

(iii) Risks:

These products are mainly exposed to inflation risks, interest rate risks and counterparty risks, as described in section l. above.

B. Debt securities

These are interest rate instruments, the two main sub-categories being negotiable debt securities and bonds.

Negotiable debt securities mainly include Certificates of Deposit issued by banks, commercial paper issued by non-financial companies and Treasury notes. These securities, which generally have maturities of less than 12 months, are not traded on the stock market. They are traded between financial intermediaries in the over-the-counter money market.

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Bonds are negotiable instruments in registered or bearer form, issued by commercial companies, public authorities or

by governments to parties that lend them capital, and whose nominal value at the time of issue corresponds to a division of the total amount of the loan. Bonds may be fixed rate or floating rate. The duration, repayment method and type of interest are established at the time of issue. These securities are generally issued with long maturities. Some structured products take the legal form of a bond and are presented in the section on structured products below.

The purchaser of a bond (the creditor) has a right of claim against the issuer (the debtor).

A bondholder that holds these securities until maturity will, in principle, receive repayment on the terms and conditions provided for on issue (generally at nominal value). If he resells them on the market before maturity, he runs the risk of a loss of capital if interest rates on the markets have moved adversely.

The yield and security offered by these bonds is determined by a number of criteria, notably interest rate levels in the capital markets, the credit quality of the issuer and the time to maturity of the security. The risk of non-repayment of bonds is linked to the credit quality of the issuer.

There are several different types of bonds, including:

- Straight or fixed rate bonds;

- Floating or variable-rate bonds whose coupon varies in line with the market index stipulated in the issue contract;

- OAT (Obligations assimilables du Trésor) issued by the French government;

- Convertible bonds that offer the same features as a conventional bond but also give the holder the option of exchanging the bond concerned for a share under conditions specified in advance. The price of a convertible bond therefore reacts not only to interest rate trends in the same way as any other bond, but also to trends in the price of the underlying share.

(i) <u>Features:</u>

- *Return:* interest payments, possible increases in value (difference between the purchase/issue price and the sale/settlement price in the event of sale/settlement before maturity);

- *Duration:* short-term (< 4 years), medium-term (4-8 years) or long-term (> 8 years);

- *Currency:* investor's national currency or foreign currency. Provision may be made for the payment of principal and interest in different currencies. In this case, the bond may carry an option to limit currency risk;

- *Form*: individual securities with a fixed nominal value (which can be returned to investors) or collectively represented by a global certificate held with a depositary bank;

- *Issue value*: at par (100% of nominal value), under par (issue price less than nominal value) or above par (issue price higher than nominal value);

- *Issue location*: this may be the investor's domestic market or a foreign market;

- *Payment:*

    - at predetermined dates: unless otherwise stipulated or the issuer is insolvent, bonds are redeemed either when they mature or by instalments (generally after a lock-in period) or at different dates determined through drawing (generally after a lock-in period);

    - at undetermined dates: the issuer may reserve the right to redeem the bond at a date to be determined later on a discretionary basis;

- *Interest:* interest depends on the loan procedures: e.g. fixed interest for the entire duration or variable interest often linked to financial market interest rates (e.g. Libor or Euribor). In the latter case, a minimum and/or maximum rate may be stipulated;

- *Particular features (e.g. relations between issuer and investor)*: set out in the terms of issue of the bond concerned.

(ii) Benefits

Depending on market conditions, these products may generate better returns than fixed-return products.

(iii) Risks:

1) Insolvency risk

The issuer risks becoming temporarily or permanently insolvent, resulting in inability to pay interest and/or repay the loan.

The creditworthiness of an issuer may change due to changes in certain factors during the term of the loan. Specifically, this may be due to cyclical changes, changes relating to the company, the issuer's business sector and/or its country, as well as political developments with major economic consequences.

This risk is greater or smaller depending on whether the bonds are issued by a public body or a private institution. Risk also depends on the nationality of the public issuer or the type and business sector of the private institution issuing the bonds (bank, industrial company, etc.), and, more generally, the financial soundness of this issuer.

This risk is smaller if guarantees are attached to the bonds. However, in this case, any additional protection for the investor will depend on the status and creditworthiness of the guarantor.

In this regard, it should be noted that, generally speaking, bonds issued by entities considered safe offer, in theory, lower returns. However, the risk of total loss of the investment is correspondingly smaller.

A deterioration in the creditworthiness of the issuer also has a negative impact on the price performance of the financial instruments concerned.

2) Interest rate risk

Uncertainty about changes in interest rates means that buyers of fixed rate financial instruments are subject to a risk of declining prices if interest rates rise. The sensitivity of bonds to changes in interest rates depends mainly on the time to maturity and the nominal interest rate level.

3) Risk of early redemption

Bond issuers have the option of establishing a right of early redemption that they may use, including in the event of a decrease in interest rates on the market. Such early redemption may affect the return expected by the investor.

4) Risk of drawn bonds

Bonds amortised by drawing, whose maturity is hard to determine, may cause unforeseen changes in the expected return on the corresponding bond.

5) Risk associated with country of issue

If the bond is issued on a foreign market, it will be, in theory, subject to the laws of the country of issue. Investors should therefore inform themselves about the impact that the application of these foreign laws might have on their rights.

6) Risks specific to certain bonds

With regard to certain types of bonds, additional risks may exist: for example, floating rate notes, reverse floating rate notes, zero bonds, foreign currency bonds, convertible bonds, bonds on indices or options, subordinated bonds, etc.

With regard to these types of bonds, investors are advised to inform themselves about the risks set out in the issue prospectus and not to purchase such securities before assessing all the risks.

The descriptions below provide only an overview of the additional risks for the investor associated with these particular bonds.

Floating rate bonds

Floating rate bonds may take several forms, including:

- floor floater bonds, which carry a guaranteed interest rate. If the sum of the benchmark rate and the margin comes to less than a certain level, the investor receives interest at least equal to the fixed minimum rate. Correspondingly, in the case of cap floater bonds, the interest that the investor can receive is limited to a maximum predetermined level.

  For these bonds, it is impossible to predict, from the time of issue, the actual return on the investment as this depends on market interest rates;

- for some floating rate bonds, provision may be made for the interest rate moves in the opposite direction to market rates (reverse floating rate bonds). For these medium/long-term bonds, the interest rate to be paid to the investor is calculated based on the difference between a fixed rate and a benchmark rate (e.g. 16% less Libor). This means that the amounts paid to the investors increase when the benchmark rate falls. The value of these bonds is generally subject to greater volatility than fixed rate bonds with the same maturity;

- there are also convertible floating rate bonds, which give the investor or issuer (depending on the bond issuance conditions), the right to convert the bond into a conventional fixed rate bond. If this right is reserved for the issuer, the return on the bond may be lower than the return expected by the investor.

Zero bonds

Zero bonds do not carry a coupon. Rather than periodic interest, investors receive the difference between the settlement price and the issue price (in addition to redemption of the principal). These bonds are generally issued under par and redeemed at par. The size of the payment to the investor thus depends on the maturity of the bond, the creditworthiness of the borrower and the rates generally applied on the market.

Such bonds confer the right to payment of a single amount on a future date if the bond is held to maturity (which may have differing tax effects depending on the country). On the other hand, in the event of sale before maturity, the investor will only receive payment of the selling price of the bonds

Therefore, if market rates fall, the value of these bonds will fall further than for identical bonds with the same maturity. Furthermore, if these obligations are denominated in a foreign currency, the currency risk is increased because there are no interest payments at regular intervals, but instead payment of a lump sum at a predetermined future date.

Combined-interest bonds or step-up bonds

For combined-interest bonds or step-up bonds, investors do not receive interest rates at a single rate throughout the life of the bond. However, these bonds are similar to fixed rate bonds, in that the interest rate is predetermined at the time of issue and is not based on market rate fluctuations. By contrast, the interest rate only changes during the life of the bond in accordance with a plan determined at the time of issue.

Thus, for combined-interest bonds, it is agreed that there will be no right to interest during the first years of the life of the bond, but that the investor will subsequently have the right to interest at a higher than average rate for the remaining years. These bonds are generally issued and redeemed at par.

For step-up bonds, relatively low interest is paid to the investor initially, and higher interest is then paid in subsequent years. These bonds are generally issued and redeemed at par.

Phased interest bonds

These bonds are a combination of fixed rate and floating rate bonds. They generally have a maturity of 10 years and carry the right to the payment of interest at a fixed rate for the first years. In subsequent years, investors receive interest calculated at a variable rate according to market rates. In the final years of the life of the bond, investors again receive interest calculated according to a fixed rate.

Index-linked bonds

For these bonds, the redemption price and/or interest is determined according to the level of an index or a predetermined managed account - at the time of redemption or interest payment - and are therefore not fixed. These bonds are often zero bonds.

These bonds are generally issued in two tranches: bull bonds (bonds whose value increases if the index rises) and bear bonds (bonds whose value increases if the index falls). The risk for the investor is therefore that the value of the bond will fall if the index falls (bull bonds) or if the index rises (bear bonds).

Subordinated bonds

For these bonds, investors have an interest in informing themselves about the bond's ranking compared with the issuer's other bonds, because, in the event of bankruptcy by the issuer, these bonds will only be redeemed after payment of all higher-tier creditors (preference and pari passu bonds).

However, generally speaking, the more favourable the investor's position in the event of bankruptcy, the lower the return on the bond.

Convertible bonds/bonds with warrants

In this case, investors have the right to exchange their bonds at a certain date or during a certain period, for shares of the issuer at a predetermined rate.
There is usually a minimum lock-in period during which investors cannot exercise their conversion right. If the conversion right is not exercised, the bonds will remain fixed rate bonds, redeemable at par on maturity.

As this conversion right exists, this type of bond confers the right to payment of interest at a lower rate than the return on ordinary bonds. The value of these bonds mainly depends on the value of the underlying shares. Thus, if the price of the shares falls, the value of the bond also falls. The risk of a decline in the value of the bond is therefore greater than for bonds without conversion rights (but generally lower than the risk of a decline due to a direct investment in the relevant shares).

There are also bonds which give the investor the right to subscribe for shares of the issuer, in addition to the bond and not as an alternative. Investors' subscription rights take the form of a warrant that can be detached from the bond. This warrant can be traded separately. Investors can subscribe for shares of the bond issuer by presenting the warrant under predetermined conditions. Investors also retain the bond until maturity. As in the case of bonds with conversion rights, the periodic interest payments are generally low. Moreover, the value of these bonds, if they carry a warrant, also depends on the value of the underlying shares. If the bonds do not carry a warrant, they are conventional bonds and their value therefore largely depends on market rates.

Some variants of the bonds described above give the warrant holder the right to buy or sell another predetermined bond at a set price.

C. Shares

A share is a title instrument representing a portion of the capital of the company that issued the share. This type of security, which may be in registered or bearer form, entitles the holder to attend general meetings, to be informed of the company's operations and to receive dividends. A share is not redeemable and therefore does not have a maturity date.

The value of a share varies as a function of various parameters, among which the most commonly acknowledged are:

- the company's future earnings;
- interest rate levels;
- economic conditions; and
- the stock market environment.

(i) Features

- Return: dividends and price increases are possible (a difference between the purchase/issue price and the sale/settlement price may generate capital gains);

- Shareholders' rights: pecuniary and profit-sharing rights; these rights are determined by law and the articles of association of the issuing company;

- Transfer of shares: unless otherwise stipulated in law, transfers of bearer shares take place, in theory, without specific formalities, while there are often limitations on transfers of registered shares.

(ii) Benefits

In principle, the investor holds voting rights and shares in the company's profits. Investors may also benefit from higher returns than for investments in time deposits or in bonds.

(iii) Risks

1) Enterprise risk

The purchaser of shares is not a creditor but a contributor of capital and is therefore a co-owner of the company. The shareholder therefore participates in the development of the company and the opportunities and risks associated therewith, which could lead to unexpected changes in the value of the investment. An extreme case would be the bankruptcy of the issuing company with the likelihood of the loss of the entire invested amount.

2) Price risk

Share prices may be subject to unforeseeable fluctuations, entailing risks of loss. Price increases or decreases in the short, medium or long term alternate with no possibility of defining the duration of these cycles.

In theory, a distinction should be made between general market risk and the specific risk attached to the company itself. These two risks influence changes in the share price.

3) Dividend risk

The dividend on a share is mainly determined by the profit generated by the issuing company. If profits are low or if losses are generated, the dividend may be reduced or may not be distributed.

(iv) Additional information on shares traded on the Paris stock market and on certain derivatives of traditional shares

On the Paris stock market, transactions are traded on the cash or spot market, i.e. they are settled immediately. However, in the equity market, the more liquid stocks are eligible for the DSS.

The DSS enables investors to buy and sell securities on "credit" by deferring settlement and delivery until the end of the month, with the option of carrying a transaction over to the next month.
Orders are subject to specific margin rules. Shares can be bought with cash assets or with securities to which a valuation coefficient is applied.
The DSS is an optional settlement method and is subject to a specific fee called the deferred settlement fee.

There are also various types of equity derivatives (equity warrants, warrants, etc.).

- *Equity warrants* are negotiable securities that give the holder the right to subscribe to new shares up to a given date (expiry date) at a given price (exercise or strike price).

- *Equity subscription rights* are negotiable rights attached to existing shares that entitle the holder to subscribe to new shares in the company.

- Warrants are negotiable securities that give the holder the right (but not the obligation) to buy (call warrant) or sell (put warrant) an underlying asset such as a share on predetermined terms and conditions.

Issued by bodies that are separate from the underlying issuer, warrants have certain characteristics that, in addition to fluctuations in the underlying, can have a direct influence on their price: parity, exercise price, maturity. A warrant can be exercised or traded on the market. Market liquidity is often ensured by the issuer of the warrant. They do not entitle the holder to dividends. The warrants market can be extremely volatile, which makes these high-risk financial instruments that could result in the loss of the entire amount invested.

The leverage facilitated by the deferred settlement service and certain equity derivatives can result in a high risk of loss of capital, as described in more detail in section I. above. These products need to be monitored closely.

D. Structured products

Structured products are combinations of two or more financial instruments that together form a new product. At least one of these instruments must be a derivative.

The most frequently traded structured products have capital protection. These products can be traded in the stock market or over the counter. However, there are also structured products without capital protection, which therefore expose the investor to more risks.

Because there are many possible combinations, each structured product presents its own risks, as the risks associated with each of the instruments making up the product are mitigated or even eliminated or strengthened by virtue of the combination. It is therefore the investor's responsibility to seek out information on the risks associated with the structured product concerned. For example, this type of information is available in brochures or commercial form sheets describing the product.

1. Specific case of structured products with capital protection (e.g. GROI, PIP, PEP and GRIP)

(i) Features

- *Double component:* these products often include two components: a fixed-return investment product (e.g. bonds or monetary investments) and an option or combination of options. This enables the investor to benefit from changes in the value of one or more underlyings whilst also limiting the risk of losses. The capital protection aspect may, depending on the case, only cover part of the assets invested. Moreover, the capital protection aspect and the profit-sharing aspect may be divided into distinct components to ensure that these components are independent or so that that they can be sold separately;

- *Capital*: fully or partially guaranteed (at maturity). The capital protection component allows for calculation of the proportion of the products nominal value that will be returned to the investor at maturity, irrespective of any changes in the value of the profit-sharing component;

- *Return*: the component of option/direct investment in the risky underlying asset determines how and to what extent investors may benefit from changes in the value of the underlying. This component therefore allows for the potential gain, beyond the capital protection component, to be evaluated;

- *Flexibility*: products can be adjusted for the needs of each client and for any type of underlying.

(ii) Benefits

Investing in a market and reducing the risk of loss of capital that would exist in the case of direct investment in the same market. Returns may be greater than for investments in the money market or in bonds with an equivalent level of protection.

(iii) Risks

- *Risks at the capital protection component level*

Capital protection depends on the nominal value of the product and not its issue price or purchase price on a potential secondary market. Investors therefore do not benefit from a guarantee regarding the nominal value of the product, as capital protection does not necessarily mean redemption of 100% of the capital invested. Protection decreases if the purchase price or issue price is higher than the nominal value and, correspondingly, increases if the purchase price or issue price is lower than the nominal value, including during subscription at a price other than par or following a transaction after initial issue. The soundness of the guarantee depends on the soundness of its issuer. Capital is therefore only guaranteed if the issuer of the guarantee can meet its commitments.

The risk of maximum loss is therefore limited to the difference between the price paid and the capital protection conferred at final maturity. However, during the life of the product, its price may fall below the capital protection amount, which increases the risk of loss in the event of sale before maturity. Capital protection is only guaranteed for investors if the product is held to maturity, and is not guaranteed in the event of an early redemption request.

If the capital is not 100% guaranteed at maturity, investors will not be repaid all of the amounts initially invested.

- *Risks at the option/direct investment component level*

Depending on changes in share prices on financial markets, this component may have a value of zero at maturity. The risks associated with this component correspond to the risks relating to the option or combination of options or direct investment used.

In exchange for the capital guarantee, the investor may obtain a return that is lower than the return he would have obtained by investing directly in the underlying.

- *Liquidity risk*

Investment liquidity is not, in principle, guaranteed beyond a certain amount, usually by way of a bid/offer spread and/or an early exit penalty.

2. Specific case of structured products without capital protection of the reverse convertible and discount certificate type

(i) Features

- *Futures*: the investor receives a guaranteed coupon in a determined currency but accepts a risk in relation to the capital at maturity;
- *Underlying:* shares, indices, baskets, etc.;
- *Capital*: preserved if the market value of the underlying is not lower than the exercise price at maturity;
- *Redemption:* in cash or by delivery of the underlying, at a predetermined exercise price, if this price has fallen or increased. At maturity, if the value of the underlying is higher than the exercise price, the investor receives the guaranteed coupon plus 100% of the initially invested capital (in cash). If the value of the

underlying is lower than the exercise price, the investor receives the guaranteed coupon plus the underlying at the exercise price.

- *Flexibility*: products may be adjusted to any type of underlying;

- *Discount certificate:* in this case, the investor receives the coupon only at maturity but initially purchases this product at a discount.

(ii) Benefits

Earnings are higher than for investments in money market products.

Short-term investments are usually involved, so it is easier to assess potential earnings.

(iii) Risks

- *Capital risk*

Capital protection is not guaranteed if the investor receives the underlying in place of the invested capital at maturity.

The risk at this level is very closely linked to changes in the market value of the underlying.

- *Liquidity risk*

The liquidity of the investment is not, in principle, guaranteed beyond a certain amount.

- Currency risk

For products denominated in currencies other than the currency of the underlying, the investor is exposed to an additional currency risk.

3. Specific case of certain credit derivatives:

***credit linked notes* (CLN)**

(i) Features

An investment in a CLN is comparable to a direct investment in a floating rate note issued by the same issuer.

(ii) Risks

- *Double risk*

Investors in CLNs sustain both the credit risk of the issuer of the CLN and that of the underlying reference unit(s). When a credit event occurs, the investor is issued either with a debt security (a security or loan) issued or guaranteed by the corresponding reference unit, or a cash settlement amounting to the value of the debt security, calculated based on the credit event concerned.

- *Risk accentuated by the notion of a credit event*

The term "credit event" is broadly defined and covers more than only default in respect of the reference unit

concerned.
This notion encompasses, for example, the postponement of a redemption date or a reduction in the interest rate on a loan. A credit event could therefore cause losses for the holder of a CLN, even if no default has taken place in the strictest sense. In other words, a credit event is more likely to occur than a default.

- *Extent of risk of loss*

A credit event may result, for a CLN, in greater losses than the average losses on securities recorded by the same reference unit, as the issuer of the CLN generally has a wider choice of debt securities issued in case of default and can therefore opt for the least expensive security. In some structures, this risk is mitigated by setting recoverable amounts in advance, which pre-determine, for example, the loss on occurrence of a credit event.

Furthermore, the loss may be greater in the event of the delivery of a security or a loan with a duration greater than that of the CLN, or if the assessment is based on such a security/loan. However, the main rating agencies are aware of these two features and take them into account when evaluating CLNs.

Collateralised debt obligations **(CDOs)**

(i) Features

CDOs are also structured products, based on an underlying basket or portfolio of debt securities, including bonds, loans and/or credit default swaps.

A CDO is usually divided into several tranches with different risk levels for the underlying basket of debt securities. In principle, the lowest tranche consists of equity and each successive tranche corresponds to a higher rank and a higher credit rating.

(ii) Benefits

These synthetic structures allow for investment in underlying credit that is not always available through direct bond investments.

(iii) Risks

- *Risk associated with the tranche system*

Losses on the portfolio are initially borne by investors in the equity tranche, followed by those in the senior tranches.

Investors in a senior tranche only suffer losses if a credit event occurs that results in the loss of all equity and junior tranche capital. The tranches other than the equity tranche are therefore partially protected against losses, while the equity tranche and the junior tranches are much more exposed to underlying portfolio fluctuations.

Credit events affecting a small portion of the underlying portfolio can lead to significant losses or even the total loss of the capital invested in the equity tranche and junior tranches.

- *Risk associated with the nature of long-term investment*

Depending on various factors, the value of credit derivatives can fluctuate substantially prior to maturity, for example, when credit events and changes in the portfolio credit range occur.

Furthermore, the initial rating of any credit derivative may improve or deteriorate, as is the case for all debt securities. The credit rating of a particular instrument reflects the risk of default (long-term) in the instrument to maturity, and not short-term market risk. Generally speaking, it is advisable for investors opting for credit derivatives to practise a long-term investment policy and be able to hold the securities to maturity.

- *Risk associated with low liquidity*

Credit derivatives are seldom liquid, even if a secondary market may exist.

E. Derivatives

A derivative is a financial instrument whose value changes depending on changes in a basic asset called the "underlying"; this asset can be the price of a share, bond, stock market index, interest rate, currency, commodity or even another derivative.

The commitment made by the investor in respect of a derivative can be firm (e.g. swaps or futures) or optional (e.g. option).

In the context of derivatives, we can distinguish in particular between:

a) **transactions on options** that give either party the right, but not the obligation, to conclude a transaction. One party (that sold the option) is firmly committed while the other (that acquired the option) has a simple power that it is free to exercise or not;

b) **forward transactions** where the parties enter into a transaction that must be performed by a future deadline. In a forward transaction, the parties both make a firm commitment to execute the transaction that they have concluded within the agreed period. Transactions involving such products generate a substantial risk of loss and may even lead to loss of all the capital invested.
As such transactions can lead to margin calls during the lifetime of the product, investors should ensure they have sufficient liquidity before initiating these transactions.

1. Transactions on options

Options are derivatives whose value changes according to changes in a financial asset (e.g. share, bond, stock market index, other derivative product), called an underlying asset. The party that purchases an option receives the right (and not the obligation) to purchase (a call option or call) or sell (a put option or put) the underlying asset at a certain time or within a certain period for a basic price determined in advance (exercise price) against payment of a premium to its counterparty, the seller of the option.

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

(i) Features:

- *Duration*: the term of the option is the period from the date of subscription until the expiration date of the option;
- *Relationship between the option and the underlying*: this relationship emphasises the number of underlying units that an option holder can buy (call) or sell (put) by exercising its right of option;

- *Exercise price*: the exercise price the previously agreed price at which the option holder may buy or sell the underlying security when it exercises its right of option;

- *Exercise date:* Options exercisable at any time up to their expiration date are known as "American". Options that cannot be exercised until the expiration date are known as "European". These can, however, be freely traded on the secondary market prior to expiration if the market is liquid;

- *Exercise procedures:* the option may be with physical delivery, in which case the buyer of a call has the right to delivery of the underlying against payment of the exercise price or the buyer of a put has the right to deliver the underlying to the seller, upon payment of the exercise price by the seller. The option can also be settled in cash, in which case the difference between the exercise price and the underlying market value is due, provided that the option is in-the-money;

- *In-the-money, out-of-the-money and at-the-money options:*

  A call is in-the-money when the market value of the underlying is higher than the exercise price. Correspondingly, a call is out-of-the-money when the current market value of the underlying is lower than the

exercise price.

A put is in-the-money when the market value of the underlying is lower than the exercise price. Correspondingly, a put is out-of-the-money when the current market value of the underlying is higher than the exercise price.

When the market value and the exercise price are the same, the option is known as at-the-money;

- *Value of the option:* the price of an option depends on its intrinsic value and a series of other factors (time value), especially the time remaining until expiration and the volatility of the underlying. Time value reflects the probability that the option is in-the-money. Therefore, this value is more important for long-term options on a very volatile underlying;

- *Initial margin and additional margin:* during the life of an option, the seller must provide as collateral either the quantity of the underlying or other collateral. The margin is set by the bank. The markets require a minimum margin for quoted options. If the level of the margin provided by the investor is insufficient, the bank will be entitled to demand additional collateral (additional margin), sometimes in the very short-term;

- *Form:*

  Option certificates (warrants, quoted options): the rights and obligations attached to the relevant option are guaranteed by the issuer. They are sometimes listed on a market.

  Traded options: these are standardised options whose rights and obligations are not guaranteed and which are traded in specific markets.

  Over-the-counter (OTC) options: these options are traded off the market or over the counter. Their level of standardisation depends on market practice. They can also be customised according to the needs of investors. This type of option is not quoted and rarely takes the form of a warrant;

- *Leverage*: any change in the price of the underlying asset entails a proportionally bigger change in the price of the right of option;

- *Purchase of a call or put*: the purchaser of a call option hopes that, during the term of the option, the price of the underlying asset will increase, causing an increase in the value of the purchaser's right of option, while the buyer of a put option may make a profit when the price of the underlying security decreases;

- *Sale of a call or put:* the seller of a call option expects a decline in the value of the underlying, while the seller of a put can make profits if the value of the underlying increases;

- *Information documents:*

Investors' attention is also drawn to the specific information documents on options trading that may emanate from markets where these options are traded.

Investors must consult such information documents from the market concerned before making any investment in options.

(ii) Benefits:

During the option validity period, the option beneficiary is granted the right to buy or sell certain assets. The chances of gains are substantial due to the leverage associated with the use of an underlying. For the counterparty, such an transaction serves primarily to improve the performance of an existing position.

(iii) Risks:

1) Price risk

Options are traded on or off the market and are subject to the law of supply and demand. The question of whether there is a sufficiently liquid market for cash options and the actual or expected change in the price of the corresponding underlying security play an important role in determining the option price. A call option loses value when the price of the underlying security decreases, whereas the opposite is true for put options. The price of an option is not only determined by changes in the price of the underlying security, but also by a series of other factors, such as the duration of the option or the frequency and intensity of changes in the price of the underlying security (volatility). Therefore, the risk of a loss in the option's value may exist even if the price of the underlying security remains unchanged.

2) Leverage risk

Options leverage reacts, in theory, to a proportionally greater extent to changes in the price of the underlying security and thus provides, for its duration, opportunities for greater gains, but also risks of greater losses. The risk attached to purchasing an option increases according to the option's leverage.

3) Purchasing an option

The purchase of an option represents a highly volatile investment and the likelihood of the option expiring with no value is very high. In this case, the investor will have lost the entire amount used to pay the initial premium plus charges. Following the purchase of an option, the investor can maintain the position until expiration or perform an opposite transaction, or, for "American" options, exercise the option before expiration.

Exercising the option may involve either the cash settlement of a differential or the purchase or delivery of the underlying asset. If the subject of the option is futures contracts, exercise will imply taking a position in futures and acceptance of the associated obligations which consist in adapting to the margins.

4) Selling an option

Generally speaking, selling an option entails assuming a higher risk than purchasing an option.

Even if the price obtained for an option is fixed, the losses that may arise in respect of the seller of the option are potentially unlimited.

If the underlying market price changes unfavourably, the seller of the option will be obliged to adjust the margins to maintain the position. If the sold option is "American", the seller may be required at any time to settle the transaction in cash or to buy or deliver the underlying asset.
If the subject of the sold option is futures contracts, the seller will take a position in futures and will be subject to obligations relating to margin adjustments.

The seller's risk exposure may be reduced by holding a position in the underlying (securities, index or other) that corresponds to the position related to the sold option.

5) Purchase of the underlying when short selling

The seller of an uncovered call option does not own the underlying when the contract is entered into (short sale).

In the case of an option with physical delivery, the risk of loss for the investor corresponds to the difference between the exercise price at which the underlying will be delivered on exercise of the option and the price the investor will have to pay to purchase this support. In the case of an option with settlement, the risk of loss for the investor corresponds to the difference between the exercise price and the market value of the underlying.

As the market value of the underlying may exceed the exercise price considerably when the option is exercised, the risk of loss for the investor selling the option cannot be determined in advance, and is unlimited, at least in theory.

This risk is higher for "American" options which may be exercised at any time, and therefore at an inopportune time for the seller of the option.

An additional risk for the investor selling the option is not being able to obtain the underlying required when the option is exercised, or only being able to obtain it under very unfavourable conditions (including cost) due to market conditions.

In this context, it is important to remember that the potential loss may also exceed the margin created by the investor.

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

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

7) Specific risks relating to combined options

This involves entering into two or more options with the same basic security that differ by type of option right or the option features.

Numerous combinations are possible. It is therefore not possible to describe the risks associated with each combination in this document. It is up to the investor to find out about the specific risks associated with the proposed combination.

However, it should be noted that for any combined transaction, the elimination at some stage of one or more options could result in significant changes in the investor's risk position.

8) Specific risks relating to "exotic" options

These options are subject to additional conditions or clauses. Their payment structures cannot be implemented by any combination of transactions.

They may be OTC or made-to-measure options, or option warrants.

The range of possible exotic options is unlimited and it would be impossible to describe the risks associated with each exotic option in this document. Therefore, before buying or selling exotic options, investors should seek exhaustive information on the risks that they present.

However, the most commonly encountered exotic options present the following additional risks by comparison with traditional options.

(i) Options that depend on changes in the underlying as a whole

The market value of the underlying is critical throughout the life of the option, and not just on expiration or at the exercise date. Investors must therefore take account of any fluctuations in the underlying throughout the life of the option to assess the probability of gain or the risk of loss.

Barrier options

The rights associated with such options arise (knock-in options) or are annulled (knock -out options) fully and irreversibly only when, during a predefined period, the market value of the underlying reaches a set threshold.

Payout options

These options result in the payment of a fixed amount that is determined in advance:

o "Digital" options

Payment only occurs if, on expiration, the market value of the underlying is higher than (digital call) or lower than (digital put) the exercise price.
In this case, if the option is in-the-money, the seller of the option must pay the amount initially set.

o Lock-in options

Payment occurs only if during the life of the option, or during a predetermined period during its life, the market value of the underlying reaches a level set in advance.

Thus, when the set level is reached, the seller of the option must pay the amount initially set, regardless of subsequent developments in the price of the underlying.

o Lock-out options

Payment occurs only if, throughout the life of the option, or during a predetermined period during its life, the market value of the underlying has never reached a level or some levels initially set. In such a case, as the applicable level(s) has or have been achieved, the option becomes void and therefore loses any value, regardless of subsequent changes in the price of the underlying.

Asian options

For these options, an average value is calculated, based on the market value of the underlying over a predetermined period.
This average is used to set the value of the underlying to be delivered (average-rate option) or the exercise price to be paid (average-strike option).
Such a reference to an average value can result in:

- *average-rate option*: the value of the option on expiration is lower for the buyer and higher for the seller than the difference between the exercise price and the market value of the underlying on expiration;

- *average-strike option*: the exercise price of the call option is higher than the price initially set or the exercise price of the put option is lower than the price initially set.

Lookback options

The market value of the underlying is determined periodically during a predetermined period.

For a strike lookback option, the lowest price (call) or the highest (put) is retained as the exercise price.

For a price-lookback option, the exercise price remains unchanged but the highest value (call) or the lowest (put) is retained to set the value of the underlying.

The risk is therefore that the exercise price or the value of the underlying retained deviate from market values observed on expiration.
Therefore, in these cases, the seller must be aware that when calculating or exercising the right, we always apply the exercise price or the most unfavourable market value to it.

Contingent options

Buyers of such options only have to pay the premium if the market value of the underlying reaches or exceeds the exercise price during the life of the option ("American" option) or on expiration ("European"

option).

The risk is therefore of having to pay the entire premium even if the option is just in-the-money or at-the-money.

Ratchet and ladder options

- o Ratchet option: the exercise price is periodically readjusted for the following period - usually at regular intervals - to the market value of the underlying. An intrinsic value is therefore, where appropriate, set and accumulated during the life of the option.

- o Ladder option: in this case, adjustments are only made periodically if certain market values are reached. In general, only the highest market value will be retained.

  In addition to any intrinsic value of the option on expiration, the seller of a ratchet option is liable for all the accumulated market values and the seller of a ladder option is liable for the highest market value. For the seller, the amount payable can thus be much higher than intrinsic value of the option on expiration alone.

(ii) Options on several underlyings

Spread and outperformance options

Both of these options are based on two underlyings.

For spread options, the absolute difference in the change in the values of the underlyings is used to determine the value of the option.

For out-performance options, the relative difference is used, i.e. the best performance of an underlying relative to another is taken into account.

The risk is that, despite a positive trend in the market values of the underlyings, the difference may remain constant or even decrease and thus affect the value of the option.

Compound options

The underlyings of such options are options.

These products accordingly have significant leverage, which can result in substantial financial commitments.

2. Forward transactions

A forward transaction involves a commitment to deliver or accept a determined volume of a given underlying, at a specified date (expiration date), at a price agreed upon when the contract is entered into.

The underlying securities may be transferable securities (shares, bonds, commodities, precious metals) or benchmark rates (exchange rates, interest rates, indices).

Futures are contracts traded on markets and standardised in terms of the quantity of the underlying and the expiration of the transaction. Off-market forward transactions (over-the-counter or OTC) or forward transactions are contracts not traded on a market and therefore entail specifications that are standardised or individually negotiated between buyer and seller.

(i) Features:

- *Required initial margin*: whether a forward purchase or sale of an underlying is involved, an initial margin is set when the contract is entered into. This margin is generally expressed as a percentage of the counter-value of the contract;

- *Variation margin*: during the whole term of the contract, a variation margin is periodically calculated and required from the investor. It represents the accounting profit or loss resulting from change in the contractual value or the value of the underlying. The variation margin may reach a multiple of the initial margin. The methods used to calculate the variation margin during the term of the contract or in the event of liquidation are based on stock exchange rules and the contractual specifications inherent to each contract. Investors must immediately respond to requests received from the bank for the purpose of creating a valuation margin.

- *Liquidation*: in principle, investors may at any time during the term of the contract unwind or liquidate the contract before the expiration date, either by selling the contract or entering into a contrary contract in terms of delivery and reception obligations. In the latter case, the conditions of contrary contract will be such that the delivery and reception obligations arising from the two contracts cancel each other out.

  Liquidation ends the risk positions incurred: gains and losses accumulated until liquidation are realised;

- *Execution*: contracts not settled on expiration must be honoured by the parties concerned. Contracts with asset elements as the underlying can in principle be honoured either through physical delivery of the underlying or through cash compensation (although the first method is the most common), while contracts with benchmark rates as the underlying (excluding currency) cannot be honoured through a physical delivery of the underlying. In the case of physical delivery of the underlying, the contractual provision must be fully supplied, while in the case of compensation in cash, only the difference between the price agreed when the contract was entered into and the value of market at the time of contract execution must be paid.

  For this reason, the investor requires more cash for a contract for physical delivery of the underlying than for a contract with payment in cash.

(ii) Benefits:

Possibility of significant gains, depending on the forward market value of the underlying, all the more so as the capital initially invested is low. Possibility of also guaranteeing existing positions.

(ii) Risks:

1) Changes in the value of the contract or of the underlying

The investor incurs a risk if changes in the effective value of the contract or underlying is not consistent with the projections made by the investor when the contract was entered into.

If the value of the contract or the underlying rises, the forward seller will still deliver the underlying at the price initially agreed, which may be much lower than the current price. For the seller, the risk therefore equals the difference between the price agreed when the contract was entered into and the market value on the date of expiration. As the market value may theoretically rise with no limit, the loss potential for the seller is unlimited and may be significantly higher than the required margins.

If the value of the contract or the underlying falls, the forward buyer will still have to agree to receive the underlying at the price initially agreed, which may be markedly higher than the current market value. For the buyer, the risk thus amounts to the difference between the price agreed when the contract was entered into and the market value on the date of expiration. The buyer therefore risks a maximum loss of the initially agreed price. This loss may be significantly greater than the required margins.

Transactions are regularly evaluated (mark-to-market) and the investor must have sufficient margin cover at all times. In case of margin deficiency during the transaction, the investor must provide the variation margin within a very short time, otherwise the transaction will be liquidated early, generally at a loss.

2) Difficult or impossible liquidation

To limit extreme price fluctuations, a market may set price limits for some contracts. In such cases, the investor should keep in mind that when a price limit is reached, it may be very difficult - or even temporarily impossible - to settle the contract.
Therefore, any investor should inquire about the existence of such price limits before entering into a forward contract.

It will not always be possible (depending on the market and the terms of the transaction) to carry out operations that rule out or minimise risks relating to a transaction in progress.

Stop loss transactions, if they are possible, can only be executed during the bank's business hours. They do not limit the loss to the amount indicated, but will be executed once this limit is reached in the market, when they become "at best" orders.

3) Purchase of the underlying when short selling

Selling an underlying on a forward basis without owning it when the contract is entered into (short selling) also entails running the risk of having to purchase the underlying at a very unfavourable market price, in order to be able to honour the commitment to physically deliver the underlying on expiration.

4) Specific risks associated with options traded over the counter (OTC)

For standardised OTC forward transactions, the market is, in principle, transparent and liquid.
It is also usually possible to settle contracts.
There is no market for OTC forward transactions with OTC contractual specifications. Settlement is therefore only possible with the agreement of the counterparty.

5) Risks specific to forward exchange products

A forward exchange transaction allows for the sale or purchase of a currency at a future date at a price set when the contract is entered into.

The use of this type of investment eliminates currency risk. Furthermore, no premium has to be paid when the contract is entered into.

The main risk to the investor is the loss of a gain if the change in exchange rates is more favourable than had been anticipated when the contract was concluded.

6) Specific risks relating to combined options

Numerous combinations are possible. It is therefore not possible to describe the risks associated with each combination in this document. It is therefore the investor's responsibility to seek out information on the risks associated with the combination concerned.

However, generally speaking, it should be noted that the risks associated with such operations may change as the transactions making up the combination are settled.

F. <u>Investment funds</u>

An investment fund is a company or jointly owned entity that collects money from a certain number of investors with the aim of investing it in a range of assets, keeping to the principle of spreading risk and allowing shareholders or participants to benefit from the results of its asset management.

(i) Features:

- *Open-end funds*: in an open-end fund, the number of units and therefore participants cannot be determined in advance. The fund may issue new units or purchase units already in issue.
  With regard to the investor, the fund is obliged to redeem units, at its own expense, at the agreed redemption price and pursuant to the contractual provisions;

• *Closed-end funds*: in a closed-end fund, the issue is limited to a set number of units. Unlike open-end funds, there is no requirement for the fund to redeem units. The units may only be sold to third parties or, if applicable, in a market. The price obtained is determined based on the interplay of supply and demand.

(ii) Benefits:

The unitholder receives a portion of the fund's income.

Diversification in the underlying investments made by the fund increase the likelihood of gains or at least limit the risk of losses.

For the investments that it makes, the fund generally achieves more favourable conditions (including in terms of costs) than those the investor might obtain if investing directly in the same products.

(iii) Risks:

1) Management risk

Since the return of an investment fund depends, among other things, on the skills of investment managers and the quality of their decisions, errors of assessment in fund management may lead to losses or capital losses.

2) Risk of a fall in unit prices

Investment fund units are subject to the risk of a decline in their prices, as these decreases reflect a decline in value of the securities or currencies that make up the fund's assets, all other things being equal. The more diversified the investments, the less the risk of losses will be, theoretically. Conversely, the risks are greater if investments are more specialised and the fund is less diversified. Attention should therefore be paid to the general and specific risks associated with the financial instruments and currencies that make up the fund.

Investors must keep themselves informed about the risks specific to each fund, including by reading the relative prospectus.

(iv) Special case of Undertakings for Collective Investments in Transferable Securities (hereinafter "UCITS")

UCITS aim to collect funds from their subscribers and invest them in financial instruments according to predefined investment criteria. To be marketed, they must comply with certain regulations and have prior authorisation from the Commission de Surveillance du Secteur Financier.

There are numerous different types of funds, such as:

- Money market funds (low risk), invested mainly in fixed-income products;
- Bond funds, whose portfolios are composed mainly of bonds;
- Equity funds, whose portfolios consist mainly of equities;
- Index funds, whose investment objective is to track a given financial index;
- Guaranteed capital funds or funds with capital protection (formula funds);
- Profiled funds, whose investment strategy is a function of the level of risk acceptable to the subscribers.

The simplified prospectus (formerly the information memorandum) provided to subscribers describes the main characteristics of each fund. In particular, the prospectus stipulates the investment policy and the associated risk, the minimum recommended investment horizon, the net asset value calculation method, the asset management company delegated to manage the fund, the custodian of the securities and cash and the annual management fees.

Investors are also invited to refer to the KIID (Key Investor Information Document) which incorporates, in summary form, all the key information relating to UCITS, using a format that is standardised throughout all EU countries.
Legally, UCITS may take two forms:

- The SICAV (Société d'Investissement à Capital Variable) or open-ended investment company, whose

capital is divided into shares.

- The FCP (Fonds commun de placement) or mutual fund, which is jointly owned by its subscribers and whose capital is divided into units

The fund's portfolio is valued mainly at market value at a frequency specific to each fund. The value, after deducting management expenses, is divided by the number of shares or units in issue, giving the net asset value. This is used to set the price at which the fund's shares or units can be subscribed (bought) or redeemed (sold).

Subscription to collective investment products in the form of units of mutual funds or shares of open-end investment companies enables the investor, subject to the investment policy applied by the UCITS concerned, to:

- hold a portion of a more diversified portfolio than would be the case via direct personal holdings;
- enhance risk control via portfolio diversification;
- gain access to financial markets with a relatively small investment;
- avoid the burden of management, which is carried out by professionals;
- benefit from a very liquid investment.

The risk incurred depends on the type of fund (money market, bonds, equities, balanced, etc.), its investment policy and the investor's compliance with the recommended investment horizon.

G. "Alternative" and "off-shore" investments

(i) Features:

• *"Alternative investment":* this is an investment in a domestic or foreign investment fund which differs from traditional investments in shares and bonds due to the type of investments made by the said fund.

The most well-known forms of "alternative" investment are, for example, hedge funds, whose investment strategy consists mostly of short sales, leverage or derivatives.

Commitments to private equity funds (venture capital, corporate takeover financing) also fall into this category.

In the context of alternative investment, assets may also be invested directly in financial instruments (shares, fixed or floating-rate, zero, or convertible bonds, and money market instruments). The choice of financial instruments will not be limited in terms of industry, sector or region, nor in relation to types of securities or instruments, nor in relation to the currencies in which they are expressed or financial instruments that replicate the performance of indices.

Generally speaking, alternative management does not compare its performance against an index or benchmark: its aim is absolute (positive) performance. Alternative asset management is based on a wide range of investment strategies whose classification has an arbitrary component. In addition, many funds combine several styles in their daily management or practice management methods which include features belonging to more than one of the broad styles described below. Each of these styles has a performance, risk and correlation profile (or market risk) of its own.

• *Hedge funds:*

Hedge funds are free to choose the products and markets (including emerging markets) in which they want to invest and their trading methods. Such funds normally set substantial minimum amounts for investment in respect of investors. Remuneration of the managers of these funds is often linked to their performance.

Their basic strategy is to reduce the risk of a long position in a portfolio of securities by short selling other securities. Having thus reduced their exposure to market risk, they use leverage to increase the return. They are often long on securities considered undervalued and short on positions regarded as being of lower quality. The short portion may also consist of positions on "indices". More specifically, there are:

- *long/short* shares or bonds: these are pure style securities as described above. Stock picking is the primary source of performance for this type of fund. It is the result, generally speaking, of fundamental analysis;

- aggressive growth funds invest in shares expected to accelerate revenue growth. There is therefore a frequent bias towards small caps. Often, specialised funds in a particular sector (technology, media, telecoms, etc.) fall into this category;
- value funds invest in securities considered highly undervalued for various reasons compared with their intrinsic value;

- market neutral funds invest in a balanced way in long and short positions, aiming to minimise the correlation with the market.
This strategy is firmly rooted in good fundamental analysis and stock picking, and especially thorough risk analysis. The short portion generally consists mainly of "share" positions;
- short sellers: these are funds that only practise short selling. They look for securities regarded as overvalued and expected to decline. Their main selection criterion is the deteriorating fundamentals of the issuer.

- *Event funds:* they take advantage of specific events that take place during the lives of companies, such as restructuring, mergers and spin offs. This type of strategy is generally not much affected by market trends:
  - opportunistic strategy funds benefit from IPOs, takeover bids, surprise revenue results and other one-off events relating to the issuer;
  - distressed securities funds invest in securities, mainly bonds or bank debt, that are strongly undervalued due to bankruptcy or rescue plans. This type of strategy is mostly used in the US, where legislation is favourable.

- *Arbitrators*: use market imperfections to generate returns.
They try to identify price differentials or returns that are not justified by the economic situation of the issuer. They enter the market when they perceive a high probability that such anomalies will disappear. They are sometimes called relative value funds. The following trends can be distinguished:
  - *fixed income arbitrage*: the fund captures price anomalies in bond markets;

  - *convertible bond arbitrage*: arbitration by the fund is between a convertible bond, usually long, and a share, usually "shorted";
  - *mortgage backed securities*: the fund takes advantage of anomalies on the mortgage securities market (and derivatives thereof) in the US;

  - *merger arbitrage*: the fund focuses on takeovers and mergers.

- *Traders/CTAs (commodity trading advisors)*:
they take positions on both the downside and the upside, and, with significant leverage, on markets (equities, bonds, futures, commodities, currency, etc.).
In general, these funds do not take long-term positions in advance. They attempt to take advantage of excessive price fluctuations in the short term or to follow trends (trend followers). Their correlation with equity and bond markets is low. Thus:
  - systematic funds invest according to a computer-based and quantitative model;
  - discretionary funds rely more on fundamental analysis of the market.

- *Macro players:* these are funds that take advantage of major macroeconomic trends. They follow an opportunistic strategy. They are based on fundamental macroeconomic analysis and rely on market reactions to changes in economic policy (interest rates, currency movements, etc.). They invest in all types of financial assets and all markets as opportunities arise. They also use leverage.
- *Special situations*: these funds take advantage of very specific situations and may even create events themselves, such as forcing the management of a company to change its strategy. Also referred to as niche players. These are, for example:
  - opportunistic funds that have no fixed strategy but simply take advantage of the return opportunities that they find;
  - funds of funds are funds that invest in other alternative investment funds active in one or more of the segments described above. All these strategies can also be classified according to region and sector, in the same way as traditional funds.

- Offshore funds are investment funds domiciled in offshore centres, for example, the Bahamas, Bermuda, the Cayman Islands, Panama and the Dutch Antilles.

Each fund presents its own risks: it is therefore not possible to provide an exhaustive presentation of risks related to investments in such products in this document, but only to provide some guidance. Investors are encouraged to seek information on a case-by-case basis before investing in such products, for example by consulting the fund prospectus. The risks associated with these types of investments are more substantial (low liquidity, high sensitivity), making "alternative" investments products destined by nature for experienced investors.

(ii) Benefits:

Earnings prospects are attractive in principle for the level of risk (volatility risk).

(iii) Risks:

1) Leverage

In this area, investment strategies may entail a high level of risk. For example, when using leverage, a small change in the market may lead to significant gains but also substantial losses. In some cases, the entire investment may disappear.

2) Lack of transparency

The net asset value of such investment instruments is not usually known at the time the investor decides to make or settle such an investment. This is why notice is normally necessary before any such transaction. Therefore, the net asset value can only be calculated once the investment is made or liquidated.

Moreover, investors in "alternative" investments often have little information. The sometimes very complex strategies of investment funds frequently lack transparency for investors. Strategic changes, which can lead to a significant increase in risk, are often misunderstood or even completely underestimated by investors.

3) Potentially limited liquidity

"Alternative" investments have widely varying degrees of liquidity. Liquidity may be very limited.

Most of these investments are subject either to lock-up periods or penalties if they are liquid before the end of a given period. This is due to the relatively low liquidity of the investments included in such instruments, which are designed more for the long term.

In addition, many of the techniques used in the context of alternative investments relate to financial instruments that are illiquid or subject to legal, transfer or other restrictions. It is therefore possible that the sale of an alternative investment is only authorised periodically or on certain dates, after a notice period of several weeks, for example four times a year on specific dates. Due to a difference between the ask price and the bid price, the proceeds from the sale may not reflect the net asset value of the instrument.

For hedge funds, redemptions are only possible monthly, quarterly or annually. For private equity funds, the lock-up period can be longer than 10 years.

Finally, due to the complexity of the underlying investments made by these funds, adjustments to the net asset value may be necessary after receipt of the audited annual financial statements. Therefore, some "alternative" investment funds retain some of the investor's units, if the investor decides to liquidate 100% of his units, until receipt of the audited financial statements.

4) Minimal regulation

Many funds in this sector are domiciled in an "offshore" centre. They are frequently subject to minimal regulation. Many problems or delays may arise in the execution of orders to buy or sell units of the funds, for which the bank can not take any responsibility. The effectiveness of rights is not always guaranteed.

Investors interested in "alternative" investments, and in particular in "offshore" funds, should be aware of these risks. Concrete investment products should be examined with caution before any investment is made.

5) Short sales

Undertakings for collective investments (UCIs) in which the bank invests on behalf of the client may engage in short sales of securities likely to expose the portion of the assets of the UCI engaged in such activities to an unlimited risk, due to the absence of an upper limit on the price of these securities. However, these losses will be limited to the amount invested in the UCI in question.

6) Evaluation of UCIs

The net asset value per share of the funds in which investments are made is not audited (except for the NAV calculated at the end of financial year). Therefore, to evaluate these funds, the bank primarily uses unaudited financial information provided by the funds, by the administrative agents and/or by market makers. If the financial information used by the funds to determine their own net asset value per share is incomplete or inaccurate or if the net asset value does not reflect the value of the investments made by the funds, the valuation of these assets will be inaccurate.

7) Absence of depositary banks

For some of the UCIs in which assets are invested, the depositary role is performed by a broker on behalf of a bank. These brokers do not, in some cases, have the same credit rating as a bank. Moreover, unlike depositary banks, which operate in a regulated environment, these brokers only perform asset custody services, with no regulatory monitoring obligation.

8) Performance fees

Due to the specialised nature of these funds, some or most of them may stipulate performance fees.

9) Duplication of expenses

Investing in an investment fund, rather than directly in the financial instruments in which the fund will itself invest, generates additional expenses charged to the client.

10) Additional risks related to private equity funds

Private equity investments typically present the following additional risks:

- No guaranteed return for the investor:

  The risk for the investor is failing to recover all of the invested capital, or even losing all of it. The past performance of these investments does not constitute a guarantee of future performance, particularly since the investment environment is constantly changing (new geographical areas, new specialist fields, etc.) In particular, a cyclical recovery often generates fierce competition for company acquisitions, while it is difficult in a context of slowdown in the economy to withdraw from such investments;

- Low liquidity:

  These funds generally have a duration of 7 to 15 years. There is no recognised secondary market for this kind of investment. Therefore, withdrawal from a private equity fund (which may require payments over several years) may entail very heavy penalties, ranging up to the forfeiture of all rights to the amounts already invested in this type of investment.

  Regarding the provision of pledged funds, investors must pay close attention to notice periods, which are generally very short (sometimes restricted to 7 days) to ensure that they have sufficient liquidity that can be drawn upon at short notice in the event of capital calls.

H. <u>Trackers (or ETF, Exchange Traded Funds)</u>

Trackers are index investment funds that are traded freely on the stock market in the same way as shares and which replicate the performance of a given index or basket of shares. They offer the performance of an index or basket of

shares in a simple way and with good liquidity, since they work like shares and their liquidity is guaranteed by the issuing bank. In addition, a tracker has no maturity and no subscription or redemption fees, as issuers are compensated through the bid-offer spread (trackers are, however, subject to brokerage fees). Most trackers pay out dividends. Lastly, they give non-professional investors entry to markets that are generally hard to access and reserved for professionals: oil, emerging markets, etc.

It is a useful product for diversifying an equity portfolio but has no protection against market risk. As it is a speculative or highly speculative product, depending on the tracker, there is exposure to a risk of capital loss and it is usually reserved for experienced investors.

There are also bond trackers, which track the performance of one or more bonds.

Your advisor is entirely at your disposal for any clarification or additional information.