Eurobank
Cyprus

EUROBANK CYPRUS LTD

MiFID Information Package – Part 2*:

Risk Disclosure - overview of the main characteristics and risks of financial instruments

*** This document should be read in conjunction with the "MiFID Information pack - Part 1: General Information Document", jointly comprising the Bank's «MiFID Information Package».**

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Risk Disclosures

FINANCIAL INSTRUMENTS AND RELATED INVESTMENT RISKS

This document contains information about some Financial Instruments, including guidance on and warnings of the risks associated with those Financial Instruments. It is provided herein so that the Customer is able to understand the nature and risks of the service and of the specific type of Financial Instrument being offered and, consequently, take investment decisions on an informed basis. This document cannot and does not disclose all the risks and other significant aspects of Financial Instruments.

A Customer shall not deal in Financial Instruments unless he understands their nature and the extent of his exposure to risk and potential loss. A Customer should also be satisfied that the product and/or service is suitable for him in light of his circumstances and financial position and, where necessary, he should seek appropriate independent advice in advance of any investment decisions.

Risk factors may occur simultaneously and/or may compound each other resulting in an unpredictable effect on the value of any investment. In any of the situations described below, the use of leverage (which has the effect of magnifying potential positive or negative outcomes) may significantly increase the impact on any of the risks described.

All Financial Instruments carry a certain degree of risk and even low risk investment strategies contain an element of uncertainty. The types of risk that might be of concern will depend on various matters, including how the instrument is created, structured or drafted. The specific risks of a particular Financial Instrument or transaction will depend upon the terms of the product or transaction and the particular circumstances of, and relationships between, the relevant parties involved in such product or transaction. Different Financial Instruments involve different levels of exposure to risk.

Set out below in this **Section 1** is an outline of the major generic categories of Financial Instruments and risks that may be associated with certain generic types of Financial Instruments, which should be read in conjunction with **Section 2**.

1. GENERIC DESCRIPTION OF FINANCIAL INSTRUMENTS

The Bank trades on behalf of its customers, on transferable securities and derivatives in regulated markets, such as the Cyprus Stock Exchange (CSE) and the Athens Stock Exchange (ATHEX) as well as in other regulated markets in foreign countries. In addition, the Bank offers other financial instruments that are not traded in regulated markets. Overall, the vast variety of financial instruments provided by the Bank may cover every investor’s diversified needs, indicatively capital preservation and income growth, hedging and speculation.

1.1 Money Market Instruments

Money market instruments are short term instruments with maturity that is typically one year or less. These instruments offer a high degree of liquidity to investors and pay interest on the invested principal. Indicatively, money market instruments include the following:

(i) Certificates of Deposit: Certificates of Deposit are instruments that are typically issued by commercial banks and have maturity that ranges from one month to five years. These instruments have a specific, predetermined maturity and typically a fixed interest rate. Certificates of Deposit are intended to be held by the investors until maturity, upon which the invested principal is returned to the investor along with the accrued interest.

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(ii) Treasury Bills: Short term government debt instruments issued by central banks, usually on discount basis, guaranteed by the country's government and mature at par in one year or less (e.g. Greek Government Notes or U.S. T-Bills). Their interest rate usually depends on their maturity as well as the credit rating of the issuing state.

(iii) Commercial Papers: Issued by states and private corporations at a discount or at par in order to finance their working capital needs, with maturity of typically up to 365 days. They have a specific principal and maturity; they are transferable and traded in secondary markets. These instruments are usually issued by large corporations which maintain a high enough credit rating by Credit Rating Agencies.

(iv) Bankers' Acceptance Notes: Short term money market instruments issued by corporations whose principal and interest payments are guaranteed by a banking institution.

(v) Repos: Repurchase Agreements equivalent to time deposits with bonds as collateral.

(vi) Promissory Notes: A promissory note is a financial instrument that contains a written promise by one party (the note's issuer or maker) to pay another party (the note's payee) a definite sum of money, either on demand or at a specified future date. A promissory note typically contains all the terms pertaining to the indebtedness, such as the principal amount, interest rate, maturity date, date and place of issuance, and issuer's signature.

In case these instruments are not held until maturity the investor may lose part of the invested principal.

Investment Risks: Like other debt instruments, money market instruments may be exposed to the major risk types in Section 2 hereto, in particular credit and interest rate risk.

1.2 Shares and Other Types of Equity Instruments

(i) Shares: A share is an instrument representing a shareholder's rights in a company. Shares may be issued in bearer or registered form and may be certificated or non-certificated. One share represents a fraction of a corporation's share capital. Dividend payments and an increase in the value of the security are both possible, although not guaranteed. The shareholder has financial and ownership rights which are determined by law and the issuing company's articles of association. However, transfers of shares are often subject to limitations.

(ii) Preference shares: Unlike ordinary shares, preference shares give shareholders the right to a fixed dividend the calculation of which is not based on the success of the issuer company. They therefore tend to be a less risky form of investment than ordinary shares. Preference shares do not usually give shareholders the right to vote at general meetings of the issuer, but shareholders will have a greater preference to any surplus funds of the issuer than ordinary shareholders, should the issuer go into liquidation. There is still a risk that you may lose all or part of your capital.

(iii) Depositary Receipts Depositary Receipts (ADRs, GDRs, etc.): Are negotiable certificates, typically issued by a bank, which represent a specific number of shares in a company, traded on a stock exchange which is local or overseas to the issuer of the receipt. They may facilitate investment in the companies due to the widespread availability of price information, lower transaction costs and timely dividend distributions. The risks involved relate both to the underlying share and to the bank issuing the receipt. In addition, there are important differences between the rights of holders of ADRs and GDRs, (together, **Depositary Receipts**) and the rights of holders of the shares of the underlying share issuer represented by such Depositary Receipts. The relevant deposit agreement for the Depositary Receipt sets out the rights and responsibilities of the depositary (being the issuer of the Depositary Receipt), the underlying share issuer and holders of the Depositary Receipt which may be different from the rights of holders of the underlying shares. For example, the underlying share issuer may make distributions in respect of its underlying shares that are not passed on to the holders of its Depositary Receipts. Any such differences between the rights of holders of the Depositary Receipts and holders of the underlying shares of the underlying share issuer may be significant and may materially and adversely affect the value of the relevant instruments. Depositary Receipts representing underlying shares in a foreign jurisdiction (in particular an emerging market jurisdiction) also involve additional risks associated with the securities markets in such jurisdictions.

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Investment Risks: Shares and Equity investments may be subject to some of the following risks: market risk, liquidity risk, issuer risk, and exchange rate risk, systemic and non-systemic risk. Therefore shares and equity investments may be regarded as not having guaranteed performance, since the investor's invested principal may suffer losses.

An equity investment risk is that the company must both grow in value and, if it elects to pay dividends to its shareholders, make adequate dividend payments, or the share price may fall. If the share or equity instrument price falls, the company, if listed or traded on-exchange, may then find it difficult to raise further capital to finance the business, and the company's performance may deteriorate vis à vis its competitors, leading to further reductions in the share price. Ultimately the company may become vulnerable to a takeover or may fail. In addition, there is a risk that there could be volatility or problems in the sector that the company is in. If the company is private, i.e. not listed or traded on an exchange, or is listed but only traded infrequently, there may also be liquidity risk, whereby shares could become very difficult to dispose of.

1.3 Warrants

A warrant is a time-limited right to subscribe for shares, debentures, loan stock or government securities, and is exercisable against the original issuer of the underlying securities. Warrants often involve a high degree of gearing, so that a relatively small movement in the price of the underlying security results in a disproportionately large movement, favourable or unfavourable, in the price of the warrant. The prices of warrants can therefore be volatile.

It is essential for anyone who is considering purchasing warrants to understand that the right to subscribe which a warrant confers is invariably limited in time with the consequence that if the investor fails to exercise this right within the predetermined timescale then the investment becomes worthless. Some other instruments are also called warrants but are actually options (for example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities, often called a covered warrant).

Investment Risks: A warrant is potentially subject to all of the major risk types referred to in Section 2 hereto. A Customer should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

1.4 Bonds

Bonds are negotiable debt instruments issued in bearer or registered form by a company or a government body to creditors and whose par value at issuance represents a fraction of the total amount of the debt. The duration of the debt as well as the terms and conditions of repayment are determined in advance. Unless stipulated otherwise, the bond is repaid either at the maturity date, or by means of annual payments, or at different rates determined by drawing lots.

The interest payments on bonds may be either (i) fixed for the entire duration or (ii) variable or often linked to reference rates (e.g. Euribor or LIBOR). The purchaser of a bond (the creditor) has a claim against the issuer (the debtor).With respect to the issuing entity, bonds may be classified in the following categories:

- Government Bonds: bonds which are issued by governments or their respective debt management organizations (e.g. Cyprus Government, U.S. Government). In this way, governments cover part of their borrowing needs.
- Supranational Bonds: Bonds issued by supranational organizations (e.g. the European Investment Bank (EIB)).
- Corporate Bonds: Bonds issued mainly by banks, utility companies and other corporations.
- Municipal Bonds: Bonds issued by local government bodies (e.g. municipalities).

Besides the issuer, the main characteristics of bonds are:

- <u>Face Value / Nominal Value</u>: the initial amount of the security that the issuer promises to pay back to the investor at maturity. The interest payments are based on the face value of the bond.

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- Price: The price of a bond is quoted based on 100, which corresponds to its face value. When the price of a bond is higher than its nominal value, i.e. above par (or above 100), the bond is traded at a premium. When the price of a bond is less than its nominal value, i.e. below par (or below 100), the bond is traded at discount. Based on the above, the following prices can be identified:
  (i) Issue Price: The price at which investors buy the bond from the bond's issuer at its issue date.
  (ii) Buying Price: The price at which the investor buys the bond.
  (iii) Selling Price: The price at which the bond holder sells the bond.
  (iv) Redemption Price: The amount which the investor receives by the issuer at maturity.
- Issue Date: The date the bond is issued.
- Maturity Date: The date at which the bond matures.
- Interest Rate/ Coupon: It is the interest rate based on which the bond's interest payment is calculated for a specific period of time (usually a month, quarter, semester, or year). It is expressed as a percentage over the bond's nominal value. The coupon, which is specified when the bond is issued, may be fixed or floating.
- Accrued Interest: This is the interest that has been accumulated since the previous coupon payment, which is owed by the issuer but not yet payable to the bond holder.
- Fair Value: This is the total sum of the present values of all future cash flows of the bond (coupons plus face value at maturity).
- Yield to Maturity: The return the investor will enjoy if he/she holds the bond until maturity. It is expressed as a percentage.
- Quoted Margin (this is a feature of floating rate bonds): The Quoted Margin is the fixed percentage by which the bond's coupon exceeds the reference rate. For instance, if a floating rate bond has a coupon rate of LIBOR + 2%, the 2% is the bonds quoted margin, specified when the bond is issued and is usually fixed to maturity. The Quoted Margin may also be expressed in basis points and not as a percentage rate, where 100 basis points correspond to 1%.
- Discount Margin: In floating rate bonds, the discount margin expresses the margin of the bond with respect to the reference interest rate, based on the bond's current price, the quoted margin and the bond's remaining time to maturity. The discount margin varies throughout the bond's lifetime based on the aforementioned factors.
- Status of the bonds: The priority by which the claims of the bond holders are satisfied in case the issuing company is liquidated.
  (i) Senior Debt Instruments
  (ii) Subordinated Debt Instruments, which are distinguished in the following categories:
    - Tier 2 Capital comprising of: (i) Lower Tier 2 Capital; and (ii) Upper Tier 2 Capital.
    - Tier 1 Capital comprising of: (i) Lower Tier 1 Capital; and (ii) Upper Tier 1 Capital.
- Credit Rating: It refers to the rating of the bonds according to the credit risk that they represent, which is basically associated with their issuer. Credit Rating Agencies estimate the credit risk of bond issuers such as governments, financial institutions, corporations. In particular, Credit Rating Agencies collect and analyse information from various sources which relate to the issuer of the securities, the market segment in which the issuer operates, the issuer's overall financial situation, the nature of the bond and in general the ability of the issuer to meet the undertaken obligations towards the bond holder. The ratings have to be assessed by the investors, who have to weigh the potential risks of default or a decline in the bond's market price.

Due to the large variety of bond types, for instance short-term or long-term bonds representing senior or subordinated debt, different bond issues by the same issuer may have a different rating.
The two best known Credit Rating Agencies that are active at an international level use the following ratings:

(i) **Standards & Poor's and Fitch:**
Long term credit ratings: AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C, RD, D.
Short term credit ratings: F1+, F1, F1-, F2, F3, B, C, D.

(ii) **Moody's Investors Service:**
Long term credit ratings: Aaa, Aa1, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3, Ba1, Ba2, Ba3, B1, B2, B3, Caa1, Caa2, Caa3, Ca, C.

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Short term credit ratings: P-1, P-2, P-3, NP.

It should be noted that the price of a bond is affected to a large extent by its credit rating and by any changes in its credit rating which occurs before maturity of the bond.

Indicatively, bonds include the following types:

(i) Zero-Coupon Bonds: These bonds are issued at a discount and do not provide interim interest payments, but only the payment of their face value at maturity.

(ii) Fixed Coupon Bonds: In this case, the interest rate is specified at a fixed rate when the bond is issued and remains fixed until maturity.

(iii) Floating Rate Bonds / Notes - FRN: FRNs have a coupon that is reset periodically with respect to the reference interest rate (e.g. Euribor, Libor). The reference rate as well as any possible spread, which is added to or subtracted from the reference rate, is specified when the bond is issued. The interest that the investor receives in each interest period depends on the fluctuation of the reference rate. If at the coupon reset date the index has decreased, then the coupon will decrease accordingly.

(iv) Callable Bonds: When a callable bond is issued, it is specified in its issue terms that the issuer has the right to "call" it at specific future dates, i.e. repay it prior to its maturity. For instance, if interest rates are significantly decreased with respect to the bond's coupon, then the issuer can exercise the call right at the price and the date specified when the bond was issued.

(v) Puttable Bonds: When a puttable bond is issued, it is specified in its issue terms that the bond holder has the right to demand that the issuer repays it at a predetermined price and at dates prior to its maturity date. For example, if the interest rate is significantly increased with respect to the bond's coupon, then the bond holder can exercise the put right at the price and the date specified when the bond was issued.

(vi) Convertible Bonds: Convertible bonds offer the investor the right to convert them to other securities of the same issuer, usually equities. The conversion right may be exercisable at specified future dates and conversion ratio between the bond and the other underlying security and according to predefined procedures.

(vii) Contingent Convertible Securities/ Bonds (CoCos): are similar to Convertible Bonds, though are to be distinguished from convertible bonds as are hybrid debt-equity instruments which expose investors to the risks associated with both equity investments and fixed income investments. However, the likelihood of the bonds convening into equity is 'contingent' on a specified or pre-determined trigger event, such as the price of the embedded equity exceeding a particular level. One key risk is the occurrence of a trigger event described in the terms and conditions of the issue. This can result in a partial – or even total – loss of the capital invested since the bond would have to be converted into shares or be written down, either permanently or temporarily. CoCos will, in the majority of circumstances be issued in the form of subordinated debt instruments in order to provide the appropriate regulatory capital treatment prior to a conversion. Accordingly, in the event of liquidation, dissolution or winding –up of an issuer prior to a conversion having occurred, the rights and claims of the holders of the CoCos again the issuer in respect of or arising under the terms of the CoCos shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.

(viii) Structured/ Complex Bonds: Bonds, whose return and/or the capital payment at maturity are not predefined but depend on certain underlying securities, indices or other factors. Structured/ complex bonds can be classified according to the following characteristics:

- Capital Guarantee at Maturity: (a) 100% capital guarantee at maturity, (b) Partial capital guarantee at maturity and, (c) Non capital guarantee at maturity.
- Type of underlying financial instrument: (a) Equities or indices, (b) Interest rates, (c) Exchange Rates, (d) Commodities, (e) Mutual funds or hedge funds, (f) Other instruments (freight rates, indices relating to climate changes, emission allowances, inflation rates or other official economic statistics etc.) and (g) Combination of two or more underlying financial instruments.
- Maturity: (a) Up to 1 year, (b) 1 – 2 years, (c) 3 – 5 years and (d) Over 5 years.

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Investment Risks: Other than the risks described in Section 2 herein below, some particular risks are associated with Bonds issues such as:

(a) The possibility that an issuer will not be able to pay the investor the initial principal and/ or the coupons (credit risk), which is the case when the issuer goes insolvent, cannot be eliminated.

(b) Usually when interest rates increase, the price of the fixed bonds decreases. Additionally, usually fixed coupon bonds, with long maturities and low coupons are more sensitive to interest rate variations than those with shorter maturities and higher coupons.

(c) Bond investments may lead to the loss of a portion of the invested capital amount, when the investor sells them prior to their maturity date.

(d) The prices of structured bonds in the secondary market are affected also by the underlying securities, which may lead to the loss of up to 100% of the invested principal (in case of structures bonds with no capital guarantee) as well as of the return.

1.5 Hybrid Notes

Securities that combine the characteristics of other financial instruments. The investor may receive dividend, like owning a share, but the note may behave in the secondary market like a fixed income security. These notes are subordinated debt securities and belong to the category of Basic Own Funds (Tier 1 Capital).

Hybrid Notes may, for instance, pay a specific amount of dividend at regular intervals, like a fixed income security, but may simultaneously include terms that give the issuer the right to omit some payment (like in preferred shares) in case of objectively specified economic difficulties. It is rather often that hybrid notes do not mature (perpetual notes), like equities, or have really distant maturities dates (e.g.100 years), but the issuer has the right to buy them back at predetermined dates (call right of the issuer).

Investments risks in hybrid notes entail capital loss and/ or yield loss risk.

1.6 Collective Investments (Mutual Funds)

A Mutual Fund is a pool of assets that includes transferable securities, money market instruments and cash whose individual assets belong indivisibly to more than one unit holders, according to the number of units each one holds. Mutual Funds are not legal entities, have no maturity and the unit holders are represented in and out of court in relation to their legal dealings arising from management and their rights in the fund assets by the manager (the Mutual Fund's Management Company).

The Management Company is responsible for managing the fund according to the fund's investment objectives and policy. The mutual fund's future performance cannot be determined in advance. The value of the fund's portfolio may increase or decrease as it depends on the market characteristics and volatility as well as emerging current conditions. The mutual fund's net assets, the number of units, the net value of each unit, and its sale and redemption price are calculated every business day and are published in the daily press two business days later by the Management Company.

There are various categories of mutual funds. The most common are:

(i) Money Market Funds: Money Market Funds primarily invest in money market instruments and secondarily in debt instruments.

(ii) Bond Funds: Bond Funds invest mainly in government and corporate bonds and secondarily in money market instruments.

(iii) Equity Funds: Equity Funds invest mainly in shares listed in domestic or foreign regulated markets.

(iv) Balanced Funds: Balanced Funds combine investments in debt instruments and stocks.

(v) Funds of Funds: Funds of Funds invest in units of other funds. Funds of Funds are "baskets" of funds whose main objective is high diversification in terms of investment instruments (e.g. bonds, stocks) as well as geographical dispersion.

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(vi) Special Type Funds: Special Type Funds are long-term funds which are characterized by the use of derivatives. Through this strategy, they offer capital and yield guarantee at maturity through a mechanism of assessing the course of an underlying instrument (e.g. basket of stocks/bonds, index or basket of indices). Due to their exposure to derivatives they are considered to entail high risk.

(vii) Absolute Return Funds: This type of Fund follows the interbank market interest rates aiming at achieving a return higher than the money market instruments' return while having certain objectives regarding its variance. Usually, investment vehicles in these Funds are debt instruments, money market instruments and derivatives.

(viii) Exchange Traded Funds (ETF's): The units of this type of Funds are listed and traded in Regulated Markets or MTF or OTF. Typically, their portfolio structure tracks an index or a market sector or industry such as energy, technology, commodities (gold, oil etc.).

(ix) Commodity Funds: Commodity Funds are Funds of alternative types of investments. This type of Fund is active in the commodities market by using derivatives which have commodities or commodities indices as their underlying assets. Their performance depends on the course of the underlying financial instruments.

(x) UCITS Funds: UCITS stands for Undertakings for Collective Investments in Transferable Securities. UCITS provides a single European regulatory framework for an investment vehicle which means it is possible to market the vehicle across the EU without worrying which country it is domiciled in. UCITS funds are governed by the EU UCITS Directive. A UCITS Fund may take the form of any of the funds described hereinabove and subject to compliance with the UCITS Directive. An issuer of a UCITS Fund issues a prospectus and the disclosures made therein for a particular UCITS funds should be considered prior to making an investment.

Investment Risks: According to their Investor Profile, **investors should carefully select the funds** they decide to invest in. It is the Fund's Management Company responsibility to decide and choose the financial instruments in which a Fund invests. The mutual fund's objective, category, investments restrictions, degree of portfolio risk exposure as well as charges are described in the fund's investment policy and regulations. These investments are generally intended for experienced and financially sophisticated investors who are willing to bear the risks associated with such investments, which can include: loss of all or a substantial portion of the investment; increased risk of loss due to leveraging, short-selling or other speculative investment practices; delays in tax reporting; prohibitions and/or material restrictions on transferring interests in the fund; and higher fees than mutual funds. There is no assurance that the liquidity of the investment funds will always be sufficient to meet redemption requests as and when made.

Diversification does not assure profit nor protect against loss in a declining market. The risk of any particular fund will vary according to its strategy. In case of Fund of Funds there can be no assurance that the selection of the managers of the underlying investment funds will result in an effective diversification of investment styles and that positions taken by the underlying investment funds will always be consistent.

1.7 Hedge Funds or other alternative investment funds(AIFs)

(i) Hedge funds: are alternative investments using pooled funds that employ numerous different strategies to earn active return, or alpha, for their investors. Hedge funds may be aggressively managed or make use of derivatives and leverage in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark).

Investment risks: These products can be highly speculative and may not be suitable for all clients. Investors should ensure that they understand the features of the products and fund strategies and the risks involved, before deciding whether or not to invest in such products. Hedge funds operate in a less regulated environment. Hedge funds are less liquid, and have imperfect transparency and less frequent pricing and reporting and this makes investor due diligence, monitoring, performance tracking and reporting more complicated; some hedge funds may take leveraged positions or large positions in risky or less liquid investments which may be subject to significant market volatility.

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(ii) Private Equity Funds: A private equity fund is a collective investment scheme used for making investments in various equity (and to a lesser extent debt) securities according to one of the investment strategies associated with private equity.

Investment risks: The value of investments can fall. It is important to note that the capital value of, and income from, any investment may go down as well as up and you may not get back the full amount invested. There is Limited marketability and transferability and illiquidity (lockups of 12 or more years). In such market there is lack of regulatory oversight and protection and can be delayed or limited valuation information. Past performance is not a reliable indicator of future performance.

(iii) Property/Real Estate Funds: A real estate fund is a type of mutual fund that primarily focuses on investing in securities or in asset class consisting of equity and debt investments in where the underlying investment is in property.

Investment risks: There are, other than the general risks, special risks associated with investing in the securities of companies principally engaged in the real estate industry. These risks include the cyclical nature of real estate values, risks related to general and local economic conditions, changes in regulation and tax systems, and other real estate capital market influences.

1.8 Structured Products

A Structured Product consists of two or more of financial instruments that have different payment terms and risk characteristic and comprise a single structure. It is a single and indivisible package consisting in the combination of an interest rate-linked product plus one or more financial derivatives. Structured products can be indicatively classified according to the following characteristics:

(i) Capital guarantee at maturity: (a) 100% capital guarantee at maturity, (b) Partial capital guarantee at maturity and (c) No capital guarantee at maturity.
(ii) Type of underlying financial instrument: (a) Equities or indices, (b) Interest rates, (c) Exchange Rates, (d) Commodities, (e) Mutual funds or hedge funds, (f) Other financial instruments (freight rates, indices relating to climate changes, emission allowances, inflation rates or other official economic statistics etc.) and (g) Combination of two or more underlying instruments.
(iii) Maturity: (a) Up to 1 year, (b) 1 – 2 years, (c) 3 – 5 years and (d) Over 5 years.
(iv) Structured/ complex products may take the form of a bond or a deposit.

Investment risks: The prices of the structured products are affected by the underlying instruments, which may lead to the loss of up to 100% of the invested principal (in case of structured products with no capital guarantee or embedded leveraged derivative instrument).

An investor should refer to the term sheets for official details on all offerings, including risks involved, before investing in structured products. Investing structured products which may include derivatives and a higher degree of risk factors that may not be suitable for all investors. Such risks include risk of adverse or unanticipated market developments, issuer credit quality risk, risk of counterparty or issuer default, risk of lack of uniform standard pricing, risk of adverse events involving any underlying reference obligations, entity or other measure, risk of high volatility, and risk of illiquidity/ little to no secondary market. In certain transactions, investors may lose their entire investment, i.e., incur an unlimited loss.

1.9. Risks / Warnings in relation to Safekeeping / Custody Services

Despite the fact that the Bank undertakes reasonable measures to monitor and exercises due skill and care in the selection of such third parties as described above, the risks associated with the safekeeping or custody of Financial Instruments deposited with third parties or omnibus accounts and any relevant acts or omissions of such third parties shall be considered and addressed by the Customer.

Notwithstanding that the Bank shall comply with its obligation to use due skill and care in the selection of such third party, in case of insolvency of the third party and depending on the laws of the jurisdiction of such third party, the Customer acknowledges and accepts that he bears the risk that the relevant assets or Financial Instruments may be lost.

Neither of the Bank nor any director, officer, employee or agent of the Bank shall be liable to the Customer for any loss caused directly or indirectly by any act or omission or for the insolvency of any such third party subject to its obligation to use due skill and care in the selection of such third party.

Securities deposited with a sub-custodian, depository or clearing agency/entity are held subject to the rules and operating procedures of such party and any applicable laws and regulations whether of a governmental authority or otherwise which may not be of Cyprus. In case accounts that contain financial instruments or funds belonging to the Customer are or will be subject to the law of a jurisdiction other than that of Cyprus, the rights of the Customer relating to those financial instruments or funds may differ accordingly.

The Customer by electing the ancillary service of safekeeping or custody is deemed to understand and acknowledge that the Bank may not be able to exercise discretion in the selection or monitoring of a depository or clearing system or custodian or in the negotiation of contractual provisions with such party.

The Bank, further, subject to the terms of the Investment Services Agreement, have or may have security interest or lien over the Customer's financial instruments or funds or assets or any right of set-off in relation to

those instruments or funds or assets. Where applicable, a depository or custodian may have a security interest or lien over, or right of set-off in relation to those instruments or funds.

1.10. Specific Risk Warning for investments in Metals

There are different ways to invest in Metals (either in physical form or as underlying asset of a Financial Instrument/ Product (trading)). The Customer has to make sure to take the time to consider and to receive specific advice of what to be right for him and his Portfolio.

Transactions in Metals usually entail underlying Derivatives and are therefore classified as Complex Financial Instruments and involve a high degree of risk. It is intended only for investors (Customers) who understand and are capable of assuming all risks involved. Before entering into any transaction, an investor should determine if this transaction suits his/her particular circumstances and should independently assess (with its professional advisers) the specific risks (maximum loss, currency risks, etc.) and the legal, regulatory, credit, tax and accounting consequences. The Bank makes no representation as to the suitability of a transaction for any particular investor nor as to the future performance of a transaction in Metals.

1.11. Electronic Services (Trading Platforms)

The Bank may from time to time provide to Customers, if such electronic trading platforms will be made available in the future in relation to trading in Financial Instruments through the use of internet, electronic means and/ or specialised software either to be provided by the Bank or through any of the Bank’s associates. This section will be updated and revised if the Bank elects to provide such electronic services.
It is noted that the use of electronic trading platforms is recommended to be used only by Customers that acknowledge and understand the risks of electronic trading, banking and use of internet.

Special Notice
When making a decision to deal in Financial Instruments a Customer must consider the risks inherent in the relevant Financial Instrument or related products. The Customer shall consider all potential risks including those such as, inter alia, relating to credit, the market, liquidity, interest rate, insolvency, foreign exchange, contingent liabilities, execution venue, legal and tax issues.

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1.12. Derivatives including Futures, Forwards, Options, Swaps, Contracts in Differences (CFDs)

1.12.1. General Information

Derivatives are financial instruments whose value is based on, derived from or follows the value of other underlying assets, the so-called “underlying instrument”. Indicative underlying instruments may be exchange rates, interest rates, equities, bonds, stock exchange indices, commodities, other instruments (e.g. freight rates, climate variables, emission allowances, inflation rates or other official economic statistics etc.), assets or credits.

The derivative contract specifies the rights and obligations of the parties with respect to their mutual debts, which are calculated on the basis of the value of the underlying instrument at a predetermined future date or at regular intervals. The main types of derivatives are futures, forwards, options and swaps. The main uses of derivatives are:

- **Hedging**: Those who invest in derivatives may aim at hedging existing or future risks, which may arise from other investments or other undertaken obligations.
- **Speculation**: Derivatives investors may aim at generating profit (speculation). In this context, they use financial instruments according to their expectations about market performance to generate profit while also undertaking the relevant risk. A significant characteristic of derivative instruments is that they allow investors to hold positions whose value is a multiple of the amount invested (leverage) accompanied by the corresponding increase in the undertaken risks.
- **Arbitrage**: Derivatives investors may aim at generating profit without taking any risk, by taking advantage of short-term discrepancies in market prices, i.e. possible differences in prices of the same financial instrument in two or more different markets (arbitrage). Arbitrage requires the execution of several transactions within a limited timeframe, and therefore only investors who have a deep knowledge of the markets and have direct access to trading systems and extremely low or zero transaction costs can engage in efficient Portfolio Management.

Further below in this Section 1.12 are set descriptions to different types of derivatives which are not only applicable specifically to these derivatives but are also applicable more widely to derivatives generally. All derivatives are potentially subject to the major risk types referred to in this **Section 2 hereto**, especially market risk, credit risk and any specific sector risks connected with the underlying asset.

1.12.2. Futures

Futures are bilateral contracts whereby the purchase or sale of a security at a specific quantity at a specific future date for a specific price is agreed. Futures are exchange traded derivatives instruments, i.e. products with standard terms that are listed in regulated markets. They are used for hedging, speculation and arbitrage.

Every regulated derivatives market has a clearing house, whose mission is the clearing of derivative transactions and the assurance that both counterparties will fulfil the obligations that derive from those transactions. The risk associated with these instruments is considerably high. Some fundamental terms relating to futures are:

- Contract Size: The quantity of the underlying instrument covered by a futures contract.
- Expiration Date: The date on which the contract expires.
- Price of the contract: The trading price of the contract, i.e. the price at which the future is bought / sold.
- Settlement price: The price published by the clearing house at the close of each trading session.

With respect to the underlying instrument, futures can be classified into the following types:

- Index futures: futures whose underlying instrument is a stock exchange or financial index.
- Equity futures: futures whose underlying instrument is a listed stock.
- Currency futures: futures whose underlying instrument is a currency exchange rate (currency pair).
- Bond futures: futures whose underlying instrument is a bond.
- Commodity Futures: futures whose underlying instrument is a commodity.

A future contract involves the following margins:

- Margin: The Margin constitutes the amount the clearing house demands as collateral in case the investor cannot meet his/ her obligations derived from the daily settlement.
- Initial margin: The amount demanded by the clearing house when a transaction takes place.
- Variation Margin: In case the value of the assets used as initial margin is under a predetermined limit, the derivative contract holder is obliged to deposit the amount of the difference (margin call); otherwise the clearing house will proceed to the liquidation of the contract.
- Mark-to-Market and Daily Settlement Process: to minimize losses due to breaches of obligations by the investors, futures are marked-to-market daily. The daily profits or losses are credited or debited to the investor's account.

As far as futures traded on the Derivatives Market are concerned, the corresponding Clearing House calculates the investors' initial margins and the additional margins that arise from daily settlement which may include using a RIVA (Risk Valuation) calculation algorithm. Clearing Houses may define a minimum (independent from the valuation of the outstanding positions) account balance per final customer (transaction/settlement code).

1.12.3. Forwards

Forwards are bilateral contracts which relate to the purchase / sale of a specified quantity of a security at a specified time in the future and at a specified price. Forwards are similar to futures, their main difference being that forwards are not traded on regulated markets but are over-the-counter instruments.
As a result, forwards, unlike futures, do not have standardised features, but are flexible instruments that can be customized to meet the investors' needs. Forwards do not have a standard contract size, maturity, margin account or daily mark-to-market. The price at which the underlying instrument is bought/sold is the forward rate of the instrument at the time the contract is drawn. When the forward is created it has a zero value and therefore there is no monetary exchange between the seller and the buyer.
Forwards are used for hedging, speculation or arbitrage purposes and have the same risks as futures with the addition of counterparty risk due to the fact that they are traded outside a regulated market and there is no clearing house. With respect to the underlying Financial Instrument, forwards are classified to the following types:

- Index forwards: forwards whose underlying instrument is a stock exchange or financial index.
- Equity forwards: forwards whose underlying instrument is a listed stock.
- Currency forwards: forwards whose underlying instrument is a currency exchange rate (pair of currencies).
- Bond forwards: forwards whose underlying instrument is a Bond.
- Forward Rate Agreements (FRAs): forwards whose underlying instrument is a reference rate, such as EURIBOR, LIBOR.
- Commodity forwards: forwards whose underlying instrument is a commodity.

Currency forwards are typically used by investors that need to manage exchange rate risk, such as corporations that borrow in foreign currency, import-export companies, companies that have capital inflows from abroad in foreign currency and shipping companies with expenses in Euros and revenues in US Dollars.
The most widely used currency forwards are:

- Forward: An agreement that secures a fixed exchange rate on a predetermined future date.
- Flexible Forward: A forward whose execution date is open.

1.12.4. Options

Options are bilateral contracts that convey to one of the contracting parties the right (but not the obligation) to purchase or sell the agreed underlying security at a specified price (strike price) at a future point in time within a specific hour or deadline at a premium simply by making a unilateral declaration to the other party, on condition that such unilateral declaration is actually made. Indicatively, the underlying instruments may be commodities,

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currencies, interest rates, stock exchange indices etc. Options are used for hedging, speculation and arbitrage purposes.

The risk that is undertaken by the buyer is limited to the loss of the premium. The seller of the option on the other hand, undertakes significantly high risk.
Options are derivatives that may be exchange traded (listed), i.e. financial instruments that have standardised terms (standardised contracts) and are traded in a Trading Venue; or, over-the-counter (OTC), i.e. instruments that are traded outside regulated markets and they are designed by a financial institution to match the particular needs of every customer. Some of the fundamental terms relating to options are the following:

- Strike Price: The price at which the buyer of a call or put option may choose to exercise his/her right to buy or sell the underlying financial instrument, respectively.
- Expiration Date: The date when the option expires (i.e. the last date on which the option can be exercised).
- Settlement Date: The date on which the contract is settled, either via physical delivery (i.e. by exchange of the underlying instrument for cash) or via cash settlement (i.e. a cash transfer to the options buyer), and is usually two business days after the option expiration date.
- Contract Size: The quantity of the underlying instrument which the contract relates to.
- Premium: The cost of acquiring the call or put option.

Depending on the type of the underlying financial instrument, options may be classified into the following categories:

- Index option: An option whose underlying instrument is a stock exchange index.
- Equity option: An option whose underlying instrument is a listed stock. In the Athens Derivative Exchange only American style equity options are available.
- Currency option: An option whose underlying instrument is an exchange rate (pair of currencies).
- Interest rate option: An option whose underlying instrument is a reference rate, such as EURIBOR, LIBOR, etc.
- Commodity option: An option whose underlying instrument is a commodity, such as gas, oil etc.

The Bank also offers financial instruments that are composed of positions in Options. These instruments address companies' needs for managing foreign exchange risk. Companies that may have such needs are companies with loan obligations in foreign currency, import-export companies, companies with capital inflows in foreign currency and shipping companies that have expenses in Euro and revenues in Dollars. The most widely used are the following:

- Forward Plus
- Knock-out Forward
- Knock-out Forward Plus
- Zero Cost Collar
- Target Profit Forward
- Accumulator Forward
- Cancellable Forward

Additionally, the Bank offers financial instruments that are composed of several positions in options that cover companies' needs for managing interest rate risk. Companies with loan obligations may have those needs. Some of the most widely used are the following:

- Interest Rate Cap
- Interest Rate Collar
- Interest Rate Knock-out Collar
- Swaption
- Interest Reduction

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1.12.5. Swaps

Swap is a bilateral contract by which the parties agree to exchange one stream of cash flows against another stream based, calculated by reference to an "underlying" (such as securities' indices, bonds currencies, interest rates or commodities, or more intangible items). Swaps are OTC instruments and are usually used for hedging, speculation or arbitrage. The risk associated with these instruments is significantly high. Swaps are distinguished in the following main categories:

- Interest Rate Swaps: Swaps involving the exchange of interest rates used for interest rate risk hedging.
- Currency Swaps: Swaps involving two different currencies that are offered for hedging foreign exchange and interest rate risk.
- Commodity Swaps: Swaps whose payments are based on the return of indices on commodities and are offered for hedging from commodities' price volatility.
- Freight Rate Swap: Swaps whose payments are based on freight rate indices for transporting goods by sea.

1.12.6. CFDs (Contracts for Difference)

Certain derivatives are referred to as contracts for differences (CFDs). These can be options and futures on the FTSE 100 index or any other index of an exchange, as well as equity, currency and interest rate swaps, amongst others. However, unlike other futures and options (which may, depending on their terms, be settled in cash or by delivery of the underlying asset), these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option. Transactions in contracts for differences may also have a contingent liability which means that an investor may be liable to place additional assets with the Bank to maintain your position and a loss may be sustained well in excess of any premium received by the investor.

Though, Contracts for Difference (CFDs) differ from traditional cash-traded instruments (such as stocks, bonds, commodities and currencies) in that they do not confer ownership of the underlying asset. With CFDs an investor buying the price movement in the stock (or bond, currency, commodity, etc.). The customer never takes ownership of the underlying asset and thus does not expect to receive the dividend payment from the company that issued the shares. Nevertheless corporate actions can have an impact on the share price and hence the price of an equity based CFD. In this case the CFD provider would pay the equivalent of the dividend to anyone holding a long CFD position and deduct the equivalent from anyone holding a short position. Certain strategies, such as a 'spread' position or a 'straddle', may be as risky as a simple 'long' or 'short' position.

The general rule is that any economic effect of a corporate action on the underlying must be reflected in the CFD. This includes dividends, stock splits, rights issues etc. However, a CFD holder will never have access to non-economic corporate actions such as voting rights. CFDs usually are utilised for hedging or gearing up a portfolio where ownership of the underlying asset is neither desirable nor relevant. CFDs are margin-traded instruments, so customers can buy exposure to market movements using only a fraction of the capital required in the cash market. It is noted that CFDs are leveraged products and carry a high level of risk to an investor's capital as prices may move rapidly against him. It is possible that an investor to lose more than his initial investment and he may be required to make further payments. These products are not be suitable for all customers therefore a Customer shall ensure that he understands the risks and shall seek independent advice.

Investment Risks: The "gearing" or "leverage" often obtainable in trading in Derivative financial instruments, particularly futures, options and contracts for differences (CFDs), means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement in prices can lead to a proportionally much larger movement in the value of your Investment, and this can work against you as well as for you. These types of transactions have a contingent liability

This document cannot and does not disclose or explain all of the risks and other significant aspects involved in trading in financial derivative products. Engaging in derivative transactions can carry a high risk to your capital. This is a feature of 'leveraged' or 'margin' trading embedded in derivative transactions and an investor can lose

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more than his initial investment. An investor should not engage or trading in financial derivative products unless he understands, comprehends and has the risk appetite to undertake the nature of the transactions he is entering into and the true extent of his exposure to the risk of loss (including total loss).

Trading in Derivatives, carries significant risks, and the Bank can't offer advice or guarantee results. In case of trading in Derivatives you are an unsecured creditor in respect of moneys owed, and you should be aware of this in the unlikely event that the Bank becomes insolvent.

As described in this **Section 1.12.** different derivative products involve different levels of exposure to risk. It is recommended that you carefully consider each characteristics and KID of any such product and if not content with any information provided to obtain independent financial, taxation and other professional advice before you enter into a derivative transaction or trading.

PLEASE ALSO REFER TO SECTION 2 BELOW FOR FURTHER GENERAL RELATED INVESTMENT RISKS TO BE CONSIDERED WHEN INVESTING IN FINANCIAL INSTRUMENTS.

Any information provided in this document is only for general information and it has been provided to enable a Customer to understand the nature and risks of the Services and of the specific types of some Financial Instruments. It does not constitute and is not classified as financial or legal or investment advice or research material and is not intended as such. A Customer prior to making a decision to invest or trade in any Financial Instrument it is recommended to obtain independent legal, tax or such other financial advice based on his/her individual objectives, his/her financial situation and in consideration of the significant risks of possible loss inherent in any investment product.

2. INVESTMENT RISKS NOTICE DISCLOSURES

2.1 General Information on Investment Risks and Warnings

The price or value of an investment will depend on fluctuations in the financial markets outside of anyone's control. Past performance is no indicator and does not ensure future performance. The nature and extent of investment risks varies between countries and from investment to investment.

These investment risks will vary with, amongst other things, the type of investment being made, including how the financial products have been created or their terms drafted, the needs and objectives of particular investors, the manner in which a particular investment is made or offered, sold or traded, the location or domicile of the issuer, the diversification or concentration in a portfolio (e.g. the amount invested in any one currency, security, country or issuer), the complexity of the transaction and the use of leverage. Further the markets in which the various Financial Instruments are traded are subject to considerable fluctuations and the Bank cannot guarantee specific returns.

Every investment on any Financial Instrument is exposed to one degree or another, to all or some of the following risks:

- **Basis Risk**: The risk of deviation between the prices of derivatives and the prices of their underlying financial instruments due to the exchange market conditions or rules imposed by the derivatives or underlying instruments market regulators.
- **Credit Risk**: It is the risk of loss due to the possibility that the counterparty will not meet his/her contractual obligations.
- **Commodities Risk**: The prices of commodities may be volatile, and, for example, may fluctuate substantially if natural disasters or catastrophes, such as hurricanes, fires or earthquakes, affect the supply or production of such commodities. The prices of commodities may also fluctuate substantially if

conflict or war affects the supply or production of such commodities. If any interest and/or the redemption amount payable in respect of any product is linked to the price of a commodity, any change in the price of such commodity may result in the reduction of the amount of interest and/or the redemption amount payable. The reduction in the amount payable on the redemption of an investment may result, in some cases, in the investor receiving a smaller sum on redemption of a product than the amount originally invested in such Product.

- **Counterparty Risk**: the risk that the person or institution with whom you have entered a financial contract, who is a counterparty to the contract, will default on the obligation and fail to fulfil that side of the contractual agreement, i.e. is a type of credit risk.
- **Currency Risk**: Financial Instruments, Funds or assets denominated in a foreign currency are subject to adverse movements if the relative value of that currency falls. Currency movements may also impact the value of underlying investments of a Portfolio as they strongly influence the markets economy and the competitiveness of domestic and international issuers.
- **Default Risk**: The risk that an issuer of a bond may be unable to make timely principal and interest payments.
- **Dividend Risk**: It refers to the risk that has to do with the incorrect valuation of a security due to the fact that there is a change in the original assumptions made relating to the dividend (or other payments) the security pays (makes). Other than the possibility of ceasing the dividend payment (either temporarily or permanently), changes may also occur in the time the dividend is paid and the payment frequency etc., that affect the valuation of the security and thus the value of the position of the investor.
- **Early Redemption Risk**: Some types of bonds give the issuer the right to recall and redeem them before their maturity date. The risk originates from the possibility that the bonds will be recalled at an unfavourable price for the investor.
- **Emerging Markets Risk**: Such market lack the level of transparency, liquidity, efficiency and regulation found in more developed markets. Price volatility in emerging markets can be extreme and price discrepancies and market dislocation can be common.
- **Foreign Exchange Risk**: The risk originating from unfavourable changes in the exchange rate of the currency at which the financial instrument is valued.
- **Foreign Market Risk**: Foreign markets involve different risks each subject to their regulatory operational system. Foreign markets will involve different risks from Cyprus markets. The potential for profit or loss from transactions on foreign markets or in foreign currency denominated markets will be affected by fluctuations in foreign exchange rates.
- **Inflation Risk**: The loss of the real value (buying power) of capital due to a larger than expected increase in the level of inflation.
- **Insolvency Risk**: The issuer of an instrument may become temporarily or permanently insolvent, resulting in its incapacity to repay the interest or redeem the bond. The solvency of an issuer may change due to one or more of a range of factors including the issuing company, the issuer's economic sector and/or the political and economic status of the countries concerned. The deterioration of the issuer's solvency will influence the price of the securities that it issues.
- **Interest Rate Risk**: The risk derived from unfavourable changes in interest rates and their consequent effect on the present value of an investment's future cash flows. Uncertainty concerning interest rate movements means that purchasers of fixed-rate securities carry the risk of a fall in the prices of the securities if interest rates rise. Interest rates can rise as well as fall. A risk with interest rates is that the relative value of a security, especially a bond, will worsen due to an interest rate increase. This could impact negatively on other products. There are additional interest rate related risks in relation to floating rate instruments and fixed rate instruments; interest income on floating rate instruments cannot be anticipated. If the terms and conditions of the relevant instruments provide for frequent interest payment dates, investors are exposed to the reinvestment risk if market interest rates decline. That is, investors may reinvest the interest income paid to them only at the relevant lower interest rates then prevailing.
- **Legal Risk**: The risk that financial instruments contracts do not include detailed and clear information on the financial instruments' characteristics and value at maturity. This may happen in over-the-counter transactions whereas in regulated markets transactions the legal risk is almost eliminated.

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- **Liquidity Risk**: The risk of not being able to liquidate a financial instrument within a reasonable time at a price close to its current market price. The liquidity of an instrument is directly affected by the supply and demand for that instrument and also indirectly by other factors, including market disruptions (for example a disruption on the relevant exchange) or infrastructure issues, such as a lack of sophistication or disruption in the securities settlement process. Under certain trading conditions it may be difficult or impossible to liquidate or acquire a position.
- **Margin Risk**: Financial Instruments that include financial derivative products are margined, where open positions are retained, and require an investor to make a series of payments against the contract value, instead of paying the whole contract value immediately. When entering into financial derivative transactions an investor must maintain sufficient margin on his account at all times and if sufficient margin is not maintained in an account at all times and/or provide such additional funds within the time required, open positions may be closed at a loss and an investor will be liable for any resulting deficit.
- **Market Risk**: It is the risk of unfavourable changes in general market factors such as interest rates, stock and index prices, exchange rates, commodity prices, changes in volatility. The price of investments goes up and down depending on market supply and demand, investor perception and the prices of any underlying or allied investments or, indeed, sector, political and economic factors. These can be totally unpredictable.
- **Nationalisation Risk**: It is the risk associated with the probability that the government of a country will nationalize the company. In most cases the investors will not be fully or partially compensated.
- **Non-Systemic Risk**: Non-systemic or specific risk is the risk of a change in the value of a financial instrument due to specific factors that influence the issuer of the instrument (issuer's financial results, market sector).
- **Operational Risk**: The risk originating from factors such as people, systems and processes. For example, the risks of a customer's order being executed incorrectly or not in timely manner by the broker, or the risk of having the trade – matching system or derivatives settlement system broken down.
- **Political Risk**: The risk an investment's returns could suffer as a result of political changes or instability in a country. Instability affecting investment returns could stem from a change in government, legislative bodies, other foreign policy makers or military control.
- **Portfolio Management Risk**: It is the risk that depends on the investment strategy that is being followed or on the ability of the portfolio manager to act according to the best portfolio management practices.
- **Resolution (Bail-In) Risk**: In the event that the issuer of the debt securities or financial instrument enters into insolvency or other similar proceedings, there is a risk that the holders of the debt securities will receive less than their original investment or will receive nothing. Where the issuer of debt securities is a financial institution within the scope of the European Bank Recovery and Resolution Directive resolution regime, there is a risk that debt securities will be subject to bail-in by resolution authorities. If the collapse of the issuing financial institution poses a threat to financial stability, authorities may (i) cancel or amend the obligations of the issuing financial institution to holders of debt securities (either in whole or in part), or (ii) convert such debt securities into another type of security, including an equity security.
- **Settlement Risk**: The risk that a counterparty (or intermediary agent) fails to deliver a security or its value in cash as per agreement when the security was traded after the other counterparty or counterparties have already delivered security or cash value as per the trade agreement.
- **Venue Risk**: This risk is related to the specific characteristics of the market (regulated or not) where the financial instrument is traded or referred.

Additional specialised general risks for certain types of Financial Instruments

- **Risks specific to certain types of bond**: Additional risks may be associated with certain types of bond, for example floating rate notes, reverse floating rate notes, zero coupon bonds, foreign currency bonds, convertible bonds, reverse convertible notes, indexed bonds, and subordinated bonds. For such bonds, you are advised to make inquiries about the risks referred to in the issuance prospectus and not to purchase such securities before being certain that all risks are fully understood. In the case of subordinated bonds, you are advised to enquire about the ranking of the debenture compared to the

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issuer's other debentures. Indeed, if the issuer becomes bankrupt, those bonds will only be redeemed after repayment of all higher ranked creditors and as such there is a risk that you will not be reimbursed. In the case of reverse convertible notes, there is a risk that you will not be entirely reimbursed, but will receive only an amount equivalent to the underlying securities at maturity.

- **Hedge Funds general risks**: These products can be highly speculative and may not be suitable for all customers. Investors should ensure that they understand the features of the products and fund strategies and the risks involved, before deciding whether or not to invest in such products. These investments are generally intended for experienced and financially sophisticated investors who are willing to bear the risks associated with such investments, which can include: loss of all or a substantial portion of the investment; increased risk of loss due to leveraging, short-selling or other speculative investment practices; delays in tax reporting; prohibitions and/or material restrictions on transferring interests in the fund; and higher fees than mutual funds. Diversification does not assure profit nor protect against loss in a declining market.

2.2 Transaction and Services Risks

In addition some general technical and operational services risks should always be considered when engaging in transactions in Financial Instruments.

- **Benchmark Risk**: A benchmark is a reference value against which the performance of financial instruments may be measured. Benchmarks may be based on an index covering financial instruments of the same class, e.g. stocks or bonds or can also be calculated for a specific industry, a type of company or as a reference value for the broader economy. Products have different benchmarks or interest rate benchmarks. Funds that have a benchmark - such benchmark for example may be based on 'interest rates', that is, indexed benchmarks linked to Interest rates (e.g. could be linked to LIBOR, EURIBOR or other interest rates benchmarks) - must disclose this in their key investor information documents (e.g. KID/KIID) and display the performance of that benchmark.

  Customers need to be conscious of the characteristics of good indices and benchmarks. Investors should evaluate their return goals and risk tolerance before selecting an index.
- **Cash and Property**: The Customer should familiarise himself with the protections accorded to a customer in respect of money or other property you deposit for domestic and foreign transactions, particularly in the event of an issuer or third party involved in financial instruments insolvency or bankruptcy. Where the Bank provides safe custody services for a Customer or where hold money as client money, customer's financial instrument or client money may be held by a third party on our behalf, including banks, OTC counterparties, settlement agents, intermediate brokers, exchanges, Clearing Houses, sub-custodians, depositories, agents and nominees. Except as specifically provided in the Investment Services Agreement the Bank not be liable for any acts or omissions of any such third party. Where Customer's property or client money is held overseas, there may be different legal and regulatory requirements from those applying in Cyprus and customer rights may be affected by the regulations and applicable laws of other jurisdictions.
- **Charges and commissions**: Before you begin to trade, you should obtain details of all commissions and other charges for which you must be liable. When products are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the products. Where additional domestic or foreign parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, it must be taken into account that brokerage fees, commissions and other fees and expenses of such parties (third party costs) may be charged including any follow-up costs (such as custody fees).
- **Clearing House protections**: On many exchanges, the performance of a transaction by the Bank (or third party with whom it is dealing on your behalf) is 'guaranteed' by the exchange or clearing house. However, this guarantee is unlikely in most circumstances to cover the Customer and may not protect the Customer if the Bank or another party defaults on its obligations to the customer. On request, the Bank will explain any protection provided to you under the clearing guarantee applicable to any on-exchange derivatives in which a customer is dealing.

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- **Collateral**: If collateral is deposited as security with the Bank, the way in which it will be treated will vary according to the type of transaction and where it is traded. Deposited collateral may lose its identity as your property once transactions on behalf of the Customer are undertaken. Even if such dealings should ultimately prove profitable, the Customer may not get back the same assets which you deposited, and may have to accept payment in cash. If collateral is deposited as security with the Bank, additional terms and conditions may apply. It is the Customers responsibility to ascertain how such collateral will be dealt with by the Bank.
- **Contingent liability transactions (Margin)**: A contingent liability transaction is a transaction under the terms of which an investor will or may be liable to make further payments (other than charges) when the transaction falls to be completed or upon the earlier closing out of his position. These payments may or may not be secured by an amount in money (or represented by securities) deposited with a counterparty or a broker as a provision against loss on transactions made on account (a Margin). Contingent liability investment transactions for which a Margin is deposited (in other words, which are margined) require a Customer to make a series of payments against the purchase price, instead of paying the whole purchase price immediately. If the market moves against the investor's position, he may be called upon to pay substantial additional Margin at short notice to maintain the position. If his fail to do so within the time required, his position may be liquidated at a loss and you will be responsible for the resulting deficit.
- **Insolvency**: In the event of the Bank's insolvency or default, or that of any other brokers involved with your transaction, positions may be liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payments in cash.
- **Off-Exchange Derivative Transactions**: It may not always be apparent whether or not a particular derivative is effected on exchange or in an off-exchange (over-the-counter (OTC)) derivative transaction. While some off-exchange markets are highly liquid, transactions in off-exchange or 'non-transferable' derivatives may involve greater risk than investing in on-exchange derivatives because there is no exchange market on which to close out an open position.

  It may be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk. Bid and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what a fair price is.
- **Suspensions of trading (Settlement Risk)**: Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example at times of rapid price movement if the price for the underlying rises or falls in one trading session to such an extent that trading in the underlying is restricted or suspended. Placing a stop-loss order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.
- **Technical Risks**: Such as breakdowns or malfunctioning of essential systems and controls, including IT systems, can impact on all financial products. There is a risk that other circumstances may prevent the Bank from executing orders, or prevent any participant in the relevant markets from accessing any electronic trading platform. These include, for example, system errors and outages, maintenance periods, internet connectivity issues and failures of third parties on whom you or the Bank is dependent (for example, internet service providers or electricity companies).There may be circumstances beyond the Bank's control that can affect its ability to support your trading.

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