

## RISK DISCLOSURES

There are significant risks inherent in investing in financial instruments and markets that differ depending on the instrument and market in which you invest. Investment in derivatives, for example, may expose you to risks which are different to those which investors might expect when they invest in equities. Similarly, investment in shares issued by issuers in emerging markets (by which we mean those that have an underdeveloped infrastructure or which are less economically or politically stable as markets in well-developed countries) involves risks not typically associated with equities investment in well-developed markets. In risk disclosures provided to you, we set out some specific risks and considerations in relation to financial instruments and markets of certain types. The information included in risk disclosures is not intended to constitute a comprehensive statement of all the risks to which investors might be exposed to and there may be other risks that exist now or may arise in the future. All risk disclosures we may supply are designed to supplement any risk disclosures and other documents (including key investor information or offering documents) disclosing risks specific to particular investments, products or services. All risk disclosing documents shall constitute an integral part of all our agreements with you. If you do not understand any aspect of these documents, we recommend that you consult an independent adviser and obtain a full understanding of such terms.

### 1. GENERIC TYPES OF RISK

**1.1.** When investing in financial instruments you may be exposed to some or all of the risks described in this section below.

(a) **Price risk** means a risk of unexpected change of prices on corporate, municipal or state securities and derivatives that may result in dramatic decrease of the value of your financial instruments.

(b) **Market risk** means a risk that value of instruments depends on such factors as: prices of equities, debts and commodities; exchange, interest and other reference rates; as well as their volatilities and correlations. These factors are influenced by, among other things: political instability, government trade, fiscal and monetary programs, exchange rate policies, state of the market and industries, as well as external environment. No assurance can be given that you will not incur substantial losses because of such factors. In addition, you should be aware that if you trade on any foreign market, no domestic organisation will regulate the activities of such foreign market, including the execution, delivery and settlement of transactions, and no domestic regulator will have the power to compel enforcement of the rules of the foreign market or the laws of the foreign country. Moreover, such law and regulations will vary depending of the foreign country in which the transaction occurs. For these reasons, when you trade on foreign markets you may not be afforded certain of the protections, which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures.

(c) **Liquidity risk** means a risk of loss as the result of transactions in securities and/or derivatives due to change of market sentiment in respect of those investments. This risk may materialize when many investors effect a quick sale of securities and/or derivatives in order to close opened positions or when you invest in unrated/non-publicly offered debt securities and unlisted equities and debentures.

(d) **Issuer risk** means a risk of the issuer's insolvency, changing of credit and other ratings of the issuer, bringing suits or claims against the issuer that may result in dramatic decrease of value of the issuer's securities or failure to redeem the debt securities. Please, note that when investing in unrated/ non-publicly traded securities, in general, you will have access to less reliable, less detailed and less complete

information about the issuers. There may be no obligation for the companies to publish financial information, thus limiting your ability to carry out due-diligence or gain full knowledge on potential investments. Moreover, the general quality of data published by a company may not be as complete or adequate as or may even be below that published through a regulated market. Due to these circumstances, you may be obliged to make investment decisions and investment valuations on the basis of financial information that will be less complete and reliable than would be accustomed or required or as otherwise expected in the regulated markets or in relation to public offerings.

(e) **Credit risk** means a risk of loss as a result of the nonperformance or/and undue performance of obligations by counterparties under the contracts concluded by you.

(f) **Currency risk** means a risk of negatively changing of securities or derivatives contracts value due to changing of the currency rate of your base currency to other currencies. Foreign markets generally will involve different risks from the domestic markets. In some cases, the risks will be greater and/or additional or different to those risks of domestic markets or in domestic currency. By way of an example, investments in foreign securities may expose you to the risk of exchange rate fluctuation and when you deposit collateral denominated in one currency you may be subject to margin calls in circumstances where the obligations secured by such collateral are denominated in another currency (in addition to the risk of margin calls for fluctuations in relative values). Some currencies are not freely convertible and restrictions may be placed on the conversion and/or repatriation of funds including any profits or dividends.

(g) **Interest rate risk** means a risk 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. Due to varying interest income, you may not be able to determine a definite yield of floating rate instruments at the time they purchase them, so that their return on investment cannot be compared with that of investments having longer fixed interest periods. If the terms and conditions of the relevant instruments provide for frequent interest payment dates, you are exposed to the reinvestment risk if market interest rates decline. That is, you may reinvest the interest income paid to you only at the relevant lower interest rates than prevailing.

(h) **Commodity risk** means a risk that 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 you receiving a smaller sum on redemption of a product than the amount originally invested in such product.

(i) **Operational risk** means a risk of losses as a consequence of the mistaken or illegal actions of the employees of the organised markets or venues, custodians, registrars, clearing organisations in course of settlement of transactions in securities or derivatives.

(j) **Technical risk** means a risk of failures arising in course of ordinary operation of trading systems and communication lines (defects and failure at the operating of equipment, IT software, power supply service etc.), that may

hinder or make impossible transmission of orders or performing of the transactions in securities and/or on entering into derivative contracts and obtaining information about prices. Most open-outcry and electronic trading facilities are supported by computer-based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the one or more parties, namely the system provider, the market, the clearing house or member firms. Such limits may vary. If you undertake transactions on an electronic trading system, you will be exposed to risks associated with the system including the failure of hardware and software. The result of any system failure may be that your order is either not executed according to your instructions or not executed at all.

(k) **Tax risk** means a risk concerning with complexity of tax laws of the different countries applicable to you. Therefore, you shall consider tax consequences of investments. It is possible that the current interpretation of tax laws or understanding of practice may change, and such changing may have retrospective effect. As an investment holder, you may receive taxable income in the form of distributions and/or capital gains on your investment. You should consult with your tax advisor in order to determine the impact of taxes on your investments.

(l) **Legal risk** means a risk due to the fact that markets are subject to ongoing and substantial regulatory changes. It is impossible to predict what statutory, administrative or exchange changes may occur in the future or what impact such changes may have on your investment results. For example, off-exchange transactions may be less regulated or subject to a separate regulatory regime. Before you undertake such transactions, you should

familiarise yourself with the applicable rules and attendant risks.

(m) **System risk** means a risk of loss infliction to you as consequence of the negatively changing in system of financial market operation and organisation.

## 2. SHARES AND DEPOSITARY RECEIPTS

**2.1. Shares** in companies limited by shares entitle the owner to a portion of the company's share capital. If the company makes a profit, the company usually distributes dividends on the shares. Shares also entitle the holders to voting rights at the general meeting of the company, which is the highest-ranking decision-making body in the company. The more shares the holder owns, the greater the portion of the capital, dividends and votes that inure to him/her. Voting rights may vary depending on the class of shares concerned. There are two types of companies, public and private. Only shares of public companies may be listed for trading on stock exchanges or other marketplaces.

**2.2. Ordinary shares** are issued by limited liability companies as the primary means of raising risk capital. The issuer has no obligation to repay the original cost of the share, or the capital, to the shareholder until the issuer is wound up (in other words, the issuer company ceases to exist). In return for the capital investment in the share, the issuer may make discretionary dividend payments to shareholders, which could take the form of cash or additional shares. Ordinary shares usually carry a right to vote at general meetings of the issuer. There is no guaranteed return on an investment in ordinary shares, and in a liquidation of the issuer, ordinary shareholders are amongst the last with a right to repayment of capital and any surplus funds of the issuer, which could lead to a loss of a substantial proportion, or all, of the original investment.

**2.3.** 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.

**2.4.** A share's **par value** is the value that each share represents of the company's share capital. The total of all shares in the company multiplied by the par value of each share constitutes the company's **share capital**. Occasionally, companies wish to change the par value, e.g. because the price, i.e. the market price of the share, has risen significantly. By dividing up the share into two or several shares through a **share split**, the par value is reduced at the same time as the price of the shares is reduced. However, after a split the owners' capital remains unchanged, but is divided into a greater number of shares that have a lower par value and a lower price. Conversely, a **reverse share split** can be carried out where the price has fallen dramatically. In such case, two or several shares are merged into one share. Following a reverse split, the shareholder retains the same capital, however divided into fewer shares with a higher par value and higher price.

**2.5. Market introduction** means that shares in a company are introduced on the stock market, i.e. become listed on a stock exchange or other marketplace. The public is then invited to subscribe for (purchase) shares in the company. Most often, an existing company that was not previously listed on a stock exchange is involved, in which the owners have decided to increase the number of shareholders and facilitate trading in the company's shares. Where a State-owned company is introduced on the market, this is called privatization.

**2.6.** A **take-over** or **buyout** normally

involves an investor or investors inviting the shareholders in a company to sell their shares subject to certain conditions. If the buyer obtains 90% or more of the share capital and votes in the target company, the buyer can request compulsory purchase of the remaining shares from those shareholders who have not accepted the take-over offer. These shareholders are then entitled to payment which is determined through an arbitration proceeding.

**2.7.** If a company wishes to expand its operations, additional share capital is often required. The company raises additional capital by **issuing new shares through a new issue**. The existing shareholders often receive subscription rights entailing a **pre-emptive right to subscribe for shares** in a new issue. The number of shares that may be subscribed for is established in relation to the number of shares previously held by the shareholder. The subscriber must pay a certain price (issue price), which is often lower than the market price, for the newly issued shares. Immediately after the subscription rights – which normally have a certain market value – are detached from the shares, the price of the shares normally declines but, at the same time, shareholders who have subscribed have a larger number of shares. During the subscription period, which often lasts for several weeks, those shareholders who do not subscribe may sell their subscription rights on the marketplace on which the shares are listed. Upon the expiry of the subscription period, the subscription rights lapse and thus become useless and worthless.

**2.8.** If the assets or the reserve funds in a company limited by shares have greatly increased in value, the company can transfer part of the value to its share capital through what is commonly referred to as a **bonus issue**. In relation to bonus issues, consideration is given to the number of shares already held by each shareholder. The number of new shares

that inure through the bonus issue is established in proportion to the number of shares previously held. Through the bonus issue, the shareholder receives more shares but the owner's portion of the company's increased share capital remains unchanged. The price of the shares declines in conjunction with a bonus issue but, through the increase in the number of shares, the shareholder retains an unchanged market value for his or her invested capital. Another method of carrying out a bonus issue is for the company to re-denominate the shares. Following a write-up, the shareholders have an unchanged number of shares and market value for their invested capital.

**2.9.** A company limited by shares can also carry out a **directed new issue**, which is carried out as a new issue but directed solely to a limited group of investors. Companies limited by shares can also carry out **non-cash issues** of new shares in order to acquire other companies, business operations, or assets other than cash. In conjunction with both directed issues and non-cash issues, dilution takes place of an existing shareholder's portion of the voting capital and share capital in the company, but the number of held shares and the market value of the invested capital is not affected.

**2.10.** A risk with share investment 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 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.

**2.11.** The price of a share is affected to a great extent by the company's prospects. A share is valued upwards or downwards depending primarily on the investors' analyses and assessment of the company's possibilities to

make future profits. Future external developments regarding the economy, technology, legislation, competition, etc. determine the demand for the company's products or services and, consequently, are of fundamental significance regarding changes in the price of the company's shares.

**2.12.** Other factors directly related to the company, e.g. changes in the company's management and organisation, disruptions in production, etc., may strongly affect the company's future ability to create profits, both in the long and short-run. In the worst case, a limited company may perform so poorly that it must be declared bankrupt. The share capital, i.e. the capital invested by the shareholders, is the capital that is applied first in order to pay the company's debts. This often results in the entire share capital being used up, which means that the shares in the company become worthless.

**2.13.** Prices on certain major stock exchanges and other marketplaces could affect prices on others. Prices in shares in companies that belong to the industrial sector are often affected by changes in the prices of shares of other companies within the same sector.

**2.14.** Players on the market have different needs for investing cash (liquid funds) or obtaining liquid funds. In addition, they often have different opinions as to how the price will develop. These factors, which also include the way in which the company is valued, contribute to there being both buyers and sellers. On the other hand, if the investors have the same opinions regarding price trends, they will either wish to buy (thereby creating buying pressure from many buyers), or they will wish to sell (thereby creating selling pressure from many sellers). Prices increase in the event of buying pressure and fall in the event of selling pressure.

**2.15.** Turnover, i.e. the quantity of a particular share that is bought or sold, in turn affects the share price. In the event of high turnover, the

difference (the spread) declines between the price the buyers are prepared to pay (bid price) and the price requested by the sellers (ask price). A share with a high turnover, where large amounts can be traded without affecting the price, enjoys good liquidity and, consequently, is easy to buy or sell. Companies on the stock exchange's list of most traded shares normally have high liquidity. During the day or during longer periods, different shares can exhibit different degrees of price stability (volatility) i.e. increases and declines, as well as in size of the price changes.

**2.16.** Stock exchanges and other marketplaces normally divide shares into various lists. The main criteria regarding the list on which listing will take place are the manner, in which the company fulfils various requirements regarding the amount of share capital, diversification of ownership of the shares among many owners, operational history, and information regarding finances and operations. The most traded shares can also be found on a separate list. Shares on lists entailing high demands and high turnover are normally deemed to entail a lower risk than shares on other lists.

**2.17.** 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.

**2.18.** Shares have exposure to all of the generic risk types. Specifically, and additionally, please, note that:

(a) some investments in shares cannot easily be sold or converted to cash. Check to see if there is any penalty or charge if you must sell an investment quickly.

(b) investments in stock issued by a company with little or no operating history or published information involves greater risk than investing in a public company with an operating history and extensive public information. There is an extra risk of losing money when shares are

bought in some smaller companies, including penny shares. There is a big difference between the buying price and the selling price of these shares. If they have to be sold immediately, you may get back much less than you paid for them. The price may change quickly and it may go down as well as up.

(c) shares are not generally insured against a loss in market value.

(d) shares you own may be subject to tender offers, mergers, reorganizations, or third-party actions that can affect the value of your ownership interest. Pay careful attention to public announcements and information sent to you about such transactions. They involve complex investment decisions. Be sure you fully understand the terms of any offer to exchange or sell your shares before you act.

(e) The greatest risk in buying shares of stock is having the value of the stock fall to zero. On the other hand, the risk of selling shares short can be substantial.

**2.19. 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.

**2.20.** In addition, there are important differences between the rights of holders of ADRs and GDRs, 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.

**2.21.** Depositary receipts representing underlying shares in a foreign jurisdiction (in particular an emerging market jurisdiction) also involve risks associated with the securities markets in such jurisdictions.

SHARES THAT EMBED A DERIVATIVE ARE COMPLEX INSTRUMENTS AND MAY BE NOT APPROPRIATE FOR ALL INVESTORS.

### **3. UNITS IN COLLECTIVE INVESTMENT SCHEMES**

**3.1.** There are many different types of collective investment schemes. Generally, a collective investment scheme will involve an arrangement that enables a number of investors to pool their assets and have these professionally managed by an independent manager. Investments may typically include gilts, bonds and quoted equities, but depending on the type of scheme, may go wider into derivatives, real estate or any other asset. There may be risks on the underlying assets held by the scheme and investors are advised, therefore, to check whether the scheme holds a number of different assets, thus spreading its risk. Subject to this, investment in such schemes may reduce risk by spreading the investor's investment more widely than may have been possible if he or she was to invest in the assets directly.

The reduction in risk may be achieved because the wide range of investments held in a collective

**3.2.** investment scheme can reduce the effect that a change in the value of any one investment may have on the overall

performance of the portfolio. Although, therefore, seen as a way to spread risks, the portfolio price can fall as well as rise and, depending on the investment decisions made, a collective investment scheme may be exposed to many different generic risk types.

**3.3.** The valuation of a collective investment scheme is generally controlled by the relevant fund manager or the investment adviser (as the case may be) of the collective investment scheme. Valuations are performed in accordance with the terms and conditions governing the collective investment scheme. Such valuations may be based upon the unaudited financial records of the collective investment scheme and any accounts pertaining thereto. Such valuations may be preliminary calculations of the net asset values of the collective investment schemes and accounts. The collective investment scheme may hold a significant number of investments which are illiquid or otherwise not actively traded and in respect of which reliable prices may be difficult to obtain. In consequence, the relevant fund manager or the investment adviser may vary certain quotations for such investments held by the collective investment scheme in order to reflect its judgement as to the fair value thereof. Therefore, valuations may be subject to subsequent adjustments upward or downward. Uncertainties as to the valuation of the collective investment scheme assets and/or accounts may have an adverse effect on the net asset value of the relevant collective investment scheme where such judgements regarding valuations prove to be incorrect.

**3.4.** A collective investment scheme and any collective investment scheme components in which it may invest may utilise (inter alia) strategies such as short-selling, leverage, securities lending and borrowing, investment in sub-investment grade or non-readily realisable investments, uncovered options transactions, options and futures transactions and foreign

exchange transactions and the use of concentrated portfolios, each of which could, in certain circumstances, magnify adverse market developments and losses.

**3.5.** Collective investment schemes, and any collective investment scheme components in which it may invest, may make investments in markets that are volatile and/or illiquid and it may be difficult or costly for positions therein to be opened or liquidated.

**3.6.** The performance of each collective investment scheme and any collective investment scheme component in which it may invest is dependent on the performance of the collective investment scheme managers in selecting collective investment scheme components and the management of the relevant component in respect of the collective investment scheme components.

**3.7.** In addition, the opportunities to realise an investment in a collective investment scheme is often limited in accordance with the terms and conditions applicable to the scheme and subject to long periods of advance notice (during which the price at which interests may be redeemed may fluctuate or move against you). There may be no secondary market in the collective investment scheme and therefore an investment in such a scheme may be (highly) illiquid.

**3.8.** We recommend that you carefully read the collective investment scheme's offering document prior to investing in the units of a collective investment scheme. The offering document contains important information about the objectives, investment strategies, risks and expenses of a collective investment scheme. Please note that we cannot verify or otherwise guarantee the accuracy or completeness of any offering document, statement of additional information, report to holders or proxy solicitation materials.

**3.9.** Past performance of a collective investment scheme is no indication of future results. A collective investment scheme's

performance can change over time depending upon a variety of market conditions and share prices can fluctuate on a daily basis. Your investment may be worth more or less than your original cost when you redeem your units.

**3.10.** Collective investment schemes that invest in international securities can carry certain additional risks, including, but not limited to, political and economic instability, fluctuations in currency exchange rates, foreign taxes, and differences in regulatory requirements and financial accounting standards.

**3.11.** Some collective investment schemes may require a minimum holding period for their units.

**3.12.** Some collective investment schemes charge an early redemption fee if their units are sold before a stated holding period ends.

SHARES IN NON-UCITS COLLECTIVE INVESTMENT UNDERTAKINGS ARE COMPLEX INSTRUMENTS, CARRY A HIGH DEGREE OF RISK AND MAY BE NOT APPROPRIATE FOR ALL INVESTORS.

#### **4. BONDS AND OTHER DEBT SECURITIES**

**4.1.** A **debt security** is a financial instrument that represents a claim against the issuer of the instrument. There are various types of fixed debt instruments depending on the issuer that has issued the instrument, the security provided for the loan by the issuer, the term until the maturity date, and the type of payment of interest.

**4.2.** A **money-market instrument** is a borrowing of cash for a period, generally no longer than six months, but occasionally up to one year, in which the lender takes a deposit from the money markets in order to lend (or advance) it to the borrower.

**4.3.** A **bond** is a debt security through which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. Owners of bonds are debt



holders, or creditors, of the issuer.

**4.4.** A **discount paper** is a debt financial instrument that instead of paying interest, is sold at discount. Upon sale, the price of the instrument is calculated by discounting the instrument amount, including calculated interest, to current value. The current value or the price is lower than the amount received upon maturity. Certificates of deposit and treasury bills are examples of discount paper.

**4.5.** A **state premium bond** is another form of fixed-income financial instrument, in which interest on the bonds is distributed by lottery among the holders of premium bonds.

**4.6.** Similar to bonds, a **debenture** is an agreement between the debenture holder and issuing company, showing the amount owed by the company towards the debenture holders. The capital raised is the borrowed capital; that is why the status of debenture holders is like creditors of the company. Debentures carry interest, which is to be paid at periodic intervals. The amount borrowed is to be repaid at the end of the stipulated term, as per the terms of redemption. The issue of debentures publicly requires credit ratings.

**4.7.** The following are, however, the major differences between bonds and debentures:

- (a) a financial instrument issued by the government agencies, for raising capital is known as bonds. A financial instrument issued by the companies whether it is public or private for raising capital is known as debentures.
- (b) bonds are backed by assets. Conversely, the debentures may or may not be supported by assets.
- (c) the interest rate on debentures is higher as compared to bonds.
- (d) the payment of interest on debentures is done periodically whether the company has made a profit or not while accrued interest can be paid on the bonds.
- (e) the risk factor in bonds is low which is just opposite in the case of debentures.
- (f) bondholders are paid in priority to

debenture holders at the time of liquidation.

**4.8.** Most debt securities share some common basic characteristics including:

(a) **Face value** is the money amount the security will be worth at its maturity, and is also the reference amount the issuer uses when calculating interest payments.

(b) **Coupon rate** is the rate of interest the issuer will pay on the face value of the security, expressed as a percentage.

(c) **Coupon dates** are the dates on which the issuer will make interest payments. Typical intervals are annual or semi-annual coupon payments.

(d) **Maturity date** is the date on which the debt instrument will mature and the issuer will pay the holder the face value of the instrument.

(e) **Duration** is a measurement of how long, in years, it takes for the price of a debt security to be repaid by its internal cash flows.

(f) **Yield to maturity** is the internal rate of return (IRR, overall interest rate) earned by an investor who buys the debt security today at the market price, assuming that the security will be held until maturity, and that all coupon and principal payments will be made on schedule.

(g) **Credit rating** is a financial indicator assigned by credit rating agencies such as Moody's, Standard & Poor's and Fitch Ratings that represents the quality of a debt security.

**4.9.** Debt securities may be issued by:

- (a) Legal entities, like companies and banks.
- (b) Municipalities. Municipal bonds can offer tax-free coupon income for residents of those municipalities.

(c) Governments. For example, U.S. Treasury bonds (more than 10 years to maturity), notes (1-10 years maturity) and bills (less than one year to maturity) are collectively referred to as simply "Treasuries".

**4.10.** A **Eurobond** is a bond denominated in a currency other than the home currency of the country or market in which the bond is issued. Issuance is usually handled by an international syndicate of financial institutions on behalf of

the borrower, one of which may underwrite the bond, thus guaranteeing purchase of the entire issue.

**4.11. A loan participation note or LPN** is a fixed-income security that permits investors to buy portions of an outstanding loan or package of loans. Comparable to other bonds, LPN holders participate, on a pro rata basis, in collecting interest and principal payments. However, in contrast to “normal” bonds, there is a three-party relationship involved in an LPN: normally, a special purpose vehicle is set up as the “legal issuer”; however, the actual borrower is some other company in the background (that can be a bank or other financial institution) known as the “commercial issuer”. That commercial issuer obtains its debt financing from the legal issuer indirectly in the marketplace, in that the legal issuer issues LPNs for the sole purpose of financing the loan that has been granted to the commercial issuer.

**4.12. A zero-coupon bond** is a debt security that does not pay out regular coupon payments, and instead is issued at a discount and its market price eventually converges to face value upon maturity.

**4.13. A subordinated debt security** is a security that ranks below some loans and other debt securities with regard to claims on a company’s assets or earnings. Subordinated debt is also known as a junior security or subordinated loan. In the case of borrower default, creditors who own subordinated debt won't be paid out until after senior debtholders are paid in full.

**4.14. A perpetual bond** is a fixed income security with no maturity date. One major drawback to these types of bonds is that they are not redeemable. Given this drawback, the major benefit of them is that they pay a steady stream of interest payments forever. A perpetual bond is also known as a “consol” or a “perp”.

**4.15. A convertible debt security** is a debt security with an embedded call option that can

be changed into common stock. Conversion only occurs at specific times at specific prices under specific conditions detailed at the time the debt security is issued. Holders of regular or plain vanilla convertibles receive stock in exchange for the debt at a time when the stock price is going up. Similar to traditional debt, convertibles also have seniority in case of default of the issuer.

**4.16. Contingent convertible debt securities**, also known as CoCos are similar to traditional convertible debt in that there is a strike price, which is the cost of the stock when the debt converts into stock. What differs is that instead of converting debt instruments to common shares based solely on stock price appreciation, investors in contingent convertibles agree to take equity in exchange for debt when the company’s capital ratio falls below a certain point.

**4.17. A convertible subordinate note** is a short-term debt security that is convertible and ranks below other loans (it is subordinate to other debt). In the event the issuer becomes bankrupt and liquidates its assets, as a subordinate debt the convertible subordinate note will be repaid after other debt securities have been paid. As with all debt securities, however, the note will be repaid before stock.

**4.18. A covered bond** is a security backed by a separate group of loans; it typically carries a maturity rate of two to 10 years and enjoys relatively high credit ratings. An issuer of a covered bond purchases investments that produce cash, typically mortgages or public sector loans, puts the investments together and issues bonds covered by the cash flowing from the investments. The underlying loans of a covered bond stay on the balance sheet of the issuer. The issuer may therefore replace defaulted or prepaid loans with performing loans to minimize risk of the underlying assets not performing as well as expected. If the issuer becomes insolvent, investors holding the bonds may still receive their scheduled interest

payments from the underlying assets of the bonds, as well as the principal at the bond's maturity.

**4.19.** A **guaranteed** debt security is a debt security that offers a secondary guarantee that interest and principal payment will be made by a third party, should the issuer default due to reasons such as insolvency or bankruptcy. A guaranteed debt can be municipal or corporate, backed by an insurer, a fund or group entity, or a government authority. A guaranteed debt security therefore removes an inherent risk of default that could mean a holder never gets the principal back upon maturity and loses out on periodic interest payments by creating a back-up payer in the event that the issuer is unable to fulfill its obligation. Because of this lowered risk, guaranteed debt security generally have a lower interest rate than non-guaranteed debt instruments.

**4.20.** A **callable** debt security is a fixed-income security that can be redeemed by the issuer prior to its maturity. It means that the issuer can return the investor's principal and stop interest payments before the bond's maturity date. Redeeming a callable debt security prior to maturity is the right, but not the obligation, of the issuer. Callable debt securities may be characterised with **yield to call option** (YTC), which is the yield of a bond or note if holders were to buy and hold the security until the call date, but this yield is valid only if the security is called prior to maturity.

**4.21.** A **puttable** debt security is a fixed-income security that allows the holder to force the issuer to repurchase the security at specified dates before maturity. The repurchase price is set at the time of issue, and is usually the par value.

**4.22. Distressed** debt securities are debt securities issued by a company that is near to or currently going through bankruptcy. As a result of the issuing company's inability to meet its financial obligations, these securities have suffered a substantial reduction in value, but

because of their implicit riskiness, they offer investors the potential for high returns. In most cases, these debt instruments carry a CCC or below credit rating from debt-rating agencies. Distressed securities contrast with junk bonds, which traditionally have a credit rating of BBB or lower.

**4.23.** It is important that you fully understand the risks associated with debt securities. These risks include the following:

(a) Interest Rate Risk. There is an inverse relationship between debt securities prices and interest rates, that is the price of securities rises when interest rates fall, and fall when interest rates rise. Generally speaking, the longer a security's maturity, the greater the degree of price volatility. An investor holding a debt security until maturity may be less concerned about these price fluctuations (which are known as interest-rate risk, or market risk), because the investor will receive the par, or face, value of the debt security at maturity. Changes in market interest rates have a substantially stronger impact on the prices of zero coupon bonds than on the prices of ordinary bonds because the discounted issue prices are substantially below par. If market interest rates increase, zero coupon bonds can suffer higher price losses than other bonds having the same maturity and credit rating.

(b) Call features. A debt security may contain a "call" feature giving the issuer the right to retire, or redeem, the security, fully or partially, before the scheduled maturity date. A call feature creates uncertainty for the investor as to whether the security will remain outstanding until its maturity date, especially in the case of a high coupon debt security in a falling interest rate environment. Investors risk losing a security paying a higher rate of interest when rates decline because the issuer may decide to call in their debt securities, thus limiting the security's price appreciation potential.

(c) Credit risk. Credit risk is the potential for

loss resulting from an actual or perceived deterioration in the financial health of the issuer. Two subcategories of credit risk are default risk and downgrade risk.

- i. **Default Risk.** Defaults occur when an issuer fails to pay an interest or principal payment to a debt holder as scheduled and as specified in its terms of issue (contained in the “indenture”). The risk of default on principal or interest, or both, is greater for high-yield debt securities than for investment-grade securities. Debt securities of issuers in default may trade at very low prices, if they trade at all, and liquidity may disappear.
  - ii. **Downgrade risk.** Downgrades result when a rating agency lowers its rating on a debt security or the company that issued a debt security. Downgrades are usually accompanied by security price declines
- (d) **Liquidity risk.** Liquidity risk refers to the investor’s ability to sell a debt security quickly and easily, as reflected in the size of the bid-ask spread, or the difference between the price at which buyers are willing to buy (the bid) and the price at which sellers are willing to sell (the ask) a debt security. High-yield debt securities may be less liquid than investment-grade securities, depending on the issuer and the market conditions at any given time.

**4.24. Economic risk.** Economic risk describes the vulnerability of a debt security to downturns in the economy. Virtually all types of high-yield debt securities are vulnerable to economic risk. In recessions, high-yield debt security prices typically fall more than investment-grade securities, a reflection of their credit quality.

**4.25. Company and industry “event” risk.** Event risk encompasses a variety of pitfalls that can affect a company’s ability to repay its debt obligations on time. These may include poor management, changes in management, failure to anticipate shifts in the company’s markets,

rising costs of raw materials, regulation and new competition. Events that adversely affect a whole industry can have a blanket effect on all the debt securities in that sector.

BEFORE TRADING ANY PARTICULAR DEBT INSTRUMENT, YOU SHOULD THOROUGHLY EXAMINE RELEVANT OFFERING DOCUMENTS TO UNDERSTAND THE EXACT TERMS AND CONDITIONS OF THE INSTRUMENTS, INCLUDING ITS CREDIT RATING, ITS MATURITY, ITS RATE AND YIELD, WHETHER IT IS CALLABLE, PUTTABLE, SUBORDINATED OR PERPETUAL AND WHETHER ANY RESTRICTIONS ON SALE AND TRANSFER OF DEBT INSTRUMENTS APPLY. BONDS OR OTHER FORMS OF SECURITISED DEBT THAT EMBED A DERIVATIVE OR INCORPORATE OTHER SOPHISTICATED STRUCTURES ARE COMPLEX INSTRUMENTS, CARRY A HIGH DEGREE OF RISK AND MAY BE NOT APPROPRIATE FOR ALL INVESTORS.

## 5. DERIVATIVES

**5.1.** A **derivative** is a financial instrument:

- (a) whose value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices, a credit rating, or similar variable (the underlying);
- (b) that requires no initial net investment or little initial net investment relative to other types of contracts that have similar responses to changes in market conditions; and
- (c) that is settled at a future date.

**5.2.** Common types of exchange-traded derivatives are futures and options.

**5.3.** A **futures contract** is a legally binding agreement between two parties to purchase or sell in the future a specific quantity of underlying asset at a certain price. The price at which the contract trades (the contract price) is determined by relative buying and selling interest on the market.

**5.4.** Futures contracts may be settled either by physical delivery of the underlying security or

settled through cash settlement. Futures contracts can be used for speculation, hedging, and risk management. Futures contracts do not provide capital growth or income.

**5.5.** Futures trading is speculative and highly volatile. Price movements for futures are influenced by, among other things, government trade, fiscal, monetary and exchange control programs and policies; weather and climate conditions; changing supply and demand relationships; national and international political and economic events; changes in interest rates; and the psychological emotions of the market place. None of these factors can be controlled by us and no assurances can be given that trade results will be profitable for you or that you will not incur substantial losses.

**5.6.** Futures trading can be highly leveraged. The low margin deposits normally required in futures trading permit an extremely high degree of leverage. Accordingly, a relatively small price movement in a futures contract may result in immediate and substantial loss or gain to you. You may sustain a total loss of initial margin funds and any additional funds deposited to maintain your position.

**5.7.** The placing of certain orders (e.g. stop-loss or stop-limit orders), which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. Strategies using combination of positions, such as "spread" and "straddle" positions may be as risky as taking simple long or short positions.

**5.8.** Futures trading may be illiquid.

**5.9.** An **option contract** is a contract that gives the buyer a right, but not the obligation, to buy or sell an asset at a particular price, on or before a specified date. Options are divided into call options and put options. A **call option** is an option to buy an asset for a specified price (called **strike price**), on or before a specified date. A **put option** is an option to sell an asset for a specified price on or before a specified date. The buyer of an options contract is said to

be long, or the holder or owner of the contract. The seller of an options contract is said to be short, or writer of the contract. The cost of the option to the buyer is called the **premium**.

**5.10.** The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying. If the option is on a future, the purchaser will acquire a futures position with associated liabilities for margin. If the purchased options expire worthless, you will suffer a total loss of your investment. If you are contemplating purchasing deep out-of-the-money options, you should be aware that the chance of such options becoming profitable ordinarily is remote.

**5.11.** Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will also be exposed to the risk of the purchaser exercising the option and the seller being obligated to either settle the option in cash or to acquire or deliver the underlying interest. If the option is on a future, the seller will acquire a position in a future with associated liabilities for margin. If the option is "covered" by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. If the option is not covered, the risk of loss (including for combination writing) can be unlimited.

**5.12.** There are several option styles including (but not limited to) American-, European- and Bermuda-style. An **American-style option** may be exercised at any time prior to its expiration. A **European-style option** may only be exercised on a specific date, its expiration date. A **Bermuda-style option** may be exercised on certain specified dates during the term of the transaction.

**5.13.** If you buy an American-style call option and the relevant market price of the underlying

asset never rises above the strike price on the option (or if you fail to exercise the option while such condition exists), the option will expire unexercised and you will have lost the premium you paid for the option. Similarly, if you buy an American-style put option and the relevant market price for the underlying asset does not fall such condition exists), the option will not be exercised and you will have lost the premium you paid for the put option.

**5.14.** Purchasing European-style or Bermuda-style options may carry additional market risk since the option could be “in-the-money” for part or substantially all of the holding period but not on the exercise date(s). A call option is “in-the-money” if the strike price is lower than the relevant market price for the underlying asset. A put option is “in-the-money” if the strike price is higher than the relevant market price for the underlying asset.

**5.15.** Certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

**5.16.** Common types of off-exchange derivatives are forwards and CFDs.

**5.17.** A **forward contract** is a non-standardised contract between two parties to buy or sell an asset at a specified future time at a price agreed today. Forward contracts are very similar to futures contracts, except they are not exchange-traded, or defined on standardized assets. Persons who need to close position on forwards prior their maturity are likely to receive less than the amount of their initial investment. Therefore, forwards with longer maturities may be subject to greater liquidity risk than forwards with a shorter maturity period.

**5.18.** A **contract for difference** (CFD) allows

you to speculate on the price difference of an underlying (e.g. shares, commodities, indices) without acquiring it. The market price of a CFD reflects the price of the underlying. The underlying can be options and futures on an index of an exchange, as well as equity, currency and interest rate swaps, amongst others. The gain or loss of a CFD reflects the difference between the market price of the underlying, at the time of the agreement and the time of liquidation of the CFD. Unlike other futures and options (which may, depending on their terms, be settled in cash or by delivery of the underlying asset), CFDs can only be settled in cash. A CFD is therefore, intended to secure a profit or to avoid a loss by reference to fluctuations in the price of the underlying rather than by taking delivery of any underlying. No CFD will confer on you any right, titles or interest in any underlying or entitle you to acquire, receive, vote, hold or participate directly in any corporate actions. Each of the types of the underlying has risks that are specific to that underlying type, including in terms of price fluctuations and market liquidity. Transactions in CFDs may also have a contingent liability.

**5.19.** A **swap agreement** is a derivative where two counterparties exchange one stream of cash flows against another stream, calculated by reference to an underlying such as securities’ indices, bonds currencies, interest rates or commodities, or more intangible items. Swaps can be traded either on or off exchange.

**5.20.** A swap agreement may also be combined with an option. Such an option may be structured in two different ways. On the one hand, “swaptions” are transactions that give the purchaser of the swaption the right, against payment of a premium, to exercise or not to exercise, until the agreed maturity date, its right to enter into a pre-agreed swap agreement. On the other hand, “caps”, “floors” and “collars” enable a party, against payment or receipt of a premium, to protect itself against, or to take an

exposure on, the variation on the value or level of an underlying.

**5.21.** The swap market has grown substantially in recent years, with a large number of banks and investment banking firms acting both as principals and as agents utilising standardised swap documentation to cover swaps trading over a broad range of underlying assets. As a result, the swap market for certain underlying assets has become more liquid but there can be no assurance that a liquid secondary market will exist at any specified time for any particular swap.

**5.22.** Off-exchange derivatives are not listed on an exchange and are OTC products. A major risk of off-exchange derivatives, is counterparty risk, whereby a party is exposed to the inability of its counterparty to perform its obligations under the relevant derivative contract. Some off-exchange derivatives are not cleared on a central clearinghouse and thus, exchange and clearing house rules and protections do not apply. While some exchange markets are highly liquid, transactions in off-exchange derivatives may involve greater risk because there is no exchange market on which to close out an open position. It may be impossible to liquidate the existing position, to assess the value of the position arising from an OTC transaction.

**5.23.** Before trading derivatives, you will generally be required to put some collateral (or margin) aside to mitigate the risk of not fulfilling your obligations under the relevant derivative contract. These margin requirements are set and explained in the market rules adopted by relevant exchanges or agreed between the parties to a derivative transaction and are subject to change. In relation to exchange-traded derivatives, after the trades have been confirmed and registered, the clearing house becomes the legal counterparty, generally via the process called novation, to the trade. Therefore, in conjunction with the exchanges, the clearing houses will manage and define margining rules and procedures which are also

part of the relevant market rules.

**5.24.** Where you trade derivatives through a market intermediary with whom you hold any cash or assets, your securities and cash balances may be subject to security interests created in favour of that market intermediary and sued to satisfy your obligations under derivative contracts.

**5.25.** If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed or you become unable to make any other payments or deliveries, your positions may be liquidated with little or no prior notice at a loss and you will be liable for any resulting deficit.

**5.26.** You shall also be aware that normal pricing relationships between the underlying asset and a derivative do not always exist. There may be volatility in the price of the specific derivative contract and/or limitations on the available market for such instrument. The absence of an underlying reference price may make it difficult to determine a fair value.

**5.27.** Trading halts in the underlying security or other trading conditions (e.g. volatility, liquidity, system failures) may cause a trading market for a derivative to be unavailable, in which case you will not be able to engage in a closing transaction and you remain obliged until settlement, delivery, expiration or assignment under the derivative contract.

**5.28.** You should always familiarise yourself with the terms of the specific derivative contracts, which you are trading and associated obligations. Under certain circumstances, the specifications of outstanding contracts may be modified by the exchange or clearing house to reflect changes in the underlying.

DERIVATIVES ARE COMPLEX INSTRUMENTS AND CARRY A HIGH DEGREE OF RISK. DERIVATIVE MARKETS ARE HIGHLY VOLATILE. IT IS POSSIBLE TO LOSE SUBSTANTIAL SUMS

OF MONEY IF THEY ARE NOT MANAGED CORRECTLY. YOU UNDERSTAND THAT BY ENTERING INTO TRANSACTIONS IN DERIVATIVES YOU ASSUME OBLIGATIONS, INCLUDING CONTINGENT LIABILITIES, ADDITIONAL TO THE COST OF ACQUIRING SUCH DERIVATIVES. AS WITH ANY HIGH-RISK FINANCIAL INSTRUMENT, YOU SHOULD NOT RISK ANY FUNDS YOU CANNOT AFFORD TO LOSE. YOU MUST CAREFULLY MONITOR YOUR DERIVATIVE POSITIONS AT ALL TIMES.

## 6. WARRANTS

**6.1.** 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. A relatively small movement in the price of the underlying security could result in a disproportionately large movement, unfavorable or favorable, in the price of the warrant. The prices of warrants can therefore be volatile.

**6.2.** The right to subscribe for any of the investment products, which a warrant confers, is invariably limited in time, with the consequence that if you fail to exercise this right within the pre-determined timescale, the investment becomes worthless.

**6.3.** If subscription rights are exercised, you as the warrant holder may be required to pay to the issuer additional sums (which may be at or near the value of the underlying assets). Exercise of the warrant will give you all the rights and risks of ownership of the underlying investments.

**6.4.** A warrant is potentially subject to all of the generic risk types. You 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.

**6.5.** Some other instruments are also called warrants but are actually options (for example, a right to acquire securities that is exercisable against someone other than the original issuer

of the securities, often called a covered warrant).

WARRANTS ARE COMPLEX INSTRUMENTS AND MAY BE NOT APPROPRIATE FOR ALL INVESTORS.

## 7. EXECUTION OF ORDERS OUTSIDE A TRADING VENUE

**7.1.** Before you consent to your orders being executed outside a trading venue, we draw your attention to the following risks and consequences.

**7.2.** Your rights in the financial instruments or funds will be subject to the terms of bilateral agreements and the mandatory provisions of law applicable in the jurisdiction of the other party to the transaction. The legal and regulatory regime applying to a party located outside the Republic of Cyprus will be different from that of the Republic of Cyprus and, in the event of insolvency or default of that party, your claim for the payment of funds and delivery of securities may be treated in a different manner from that which would apply in the Republic of Cyprus.

**7.3.** Whenever your orders are executed outside a trading venue, you will be subject to counterparty risk arising from such execution. Unless your claim for delivery of financial instruments or funds is secured or covered by an investor protection or compensation scheme, you may not receive financial instruments or recover the full value of the financial instruments or recover the funds in the event of insolvency or default of the other party to the transaction.

**7.4.** In the event that the other party is unable to readily obtain financial instruments to deliver to you at the time required, you may be unable to fulfil your settlement obligations under a hedging or other transaction you have entered into in relation to those financial instruments, a counterparty, exchange or other person may exercise a right to buy-in the relevant financial instruments and you may be



unable to exercise rights or take other action in relation to those financial instruments.

## **8. STOP AND STOP LIMIT-ORDERS**

**8.1.** Native stop or stop-limit order types offered by exchanges may differ from the traditional order type.

Stop and stop-limited orders submitted using an exchange's native order type may have additional

**8.2.** non-standard attributes or be managed in a way different from the traditional definition of a stop or stop-limit order. Please, review the exchange's own website or contact the exchange for more information on how an exchange may handle a stop or stop-limit order submitted using an exchange's native order type. Among other things, exchanges may include attributes in native stop orders that result in the order not executing at all.

**8.3.** There is no guarantee that a stop or stop-limit order will be executed at or near the trigger price or will be executed at all.

**8.4.** Please, be aware that stop or stop-limit order may not be triggered or executed at or near the specified trigger price. Among other things, execution venue may fail to honor their posted prices or may experience delays or failures that may prevent or delay a stop order from being executed. In addition, market events may result in a stop order executing far from the specified trigger price. For instance, in situations where many investors submit a stop order with a similar trigger point or there is a lack of liquidity in the market, a stop order may execute a significant amount away from the specified trigger price and a stop-limit order may not execute at all.

## **9. MARGIN TRADING**

**9.1.** Where you request margin trading services and we agree, we will provide to you some intraday credit allowance. This will enable you to purchase or sell more assets than the cash or securities balance in your regular

account would otherwise permit. The amount of assets bought or sold may considerably exceed the value of your initial deposit. You understand that while such trades may give a greater opportunity for profit, it is also of a higher degree of risk. With these trades, not only gains but also losses may be magnified.

**9.2.** If the market value of assets in your account declines, you may be required to deposit more money or securities at short notice in order to maintain your line of credit. In the extreme event that assets purchased on credit decline to zero or borrowed assets significantly raise in price, you would need to deposit the relevant amount of assets borrowed or the full initial or market value of assets in cash to cover the loss. If you are unable to do so, we will be entitled to sell all or a portion of assets held in your account without notice. You will not be entitled to choose, which assets in your account will be sold. We will have the right to decide, which positions to sell in order to protect our interests.

**9.3.** A margin provided is essentially a loan granted to you which bears interest on the outstanding balance of the loan. The interest charges are applied to the loan unless you decide to make payments. Over time, your debt level increases as interest charges accrue against you. As debt increases, the interest charges increase, and so on. Therefore, the longer you hold an investment, the greater the return that is needed to break even. If you hold an investment on margin for a long period of time, the odds that you will make a profit are stacked against you.

**9.4.** We are entitled to mandate margin requirements or limits on how much you can borrow and to change these requirements or limits at any time without your consent. Your failure to satisfy the requirements or trade within the limits in effect generally will cause us to liquidate positions recoded in your account.

**9.5.** In the event you become unable to make any payments or deliveries under the

margined transactions, we will be entitled to sell any or all assets and/or apply cash recorded in your account to meet your obligations without prior notice. You also will be responsible for any outstanding shortfall in your account.

## **10. POOLED ACCOUNTS, THIRD PARTY SECURITY INTERESTS AND RIGHTS OF SET-OFF**

**10.1.** We may be obliged to create security interests, liens or rights of set-off over your financial instruments or funds in favour of a third party. Where a third party security Interest is created, there is a risk that in instances where you (or any other person whose obligations are secured by or set-off against pursuant to such security interest) default on your or their obligations towards the relevant third party, or in other circumstances, including, without limitation, where the third party anticipates that you or such obligor may default on its obligations (including, for example, where your or its financial condition deteriorates or insolvency proceedings onset against you or another obligor), the third party may have the option to enforce or set-off its rights against your financial instruments or funds and as a consequence, you may lose your financial instruments or funds and may be unable to recover them from us or the third party, regardless of whether you are in actual or potential default towards us or the third party.

**10.2.** The omnibus accounts held with third parties are a form of pooling and accordingly, your individual entitlements may not be identifiable by separate certificates, physical documents or entries on the register or equivalent electronic records. In the event of an irrecoverable shortfall following any default or failure by a party responsible for pooled assets, you may not receive full entitlement and may share in that shortfall pro-rata to your original share of assets in the pool. As a result of holding securities in omnibus accounts, you may also lose rights to a fraction or other entitlement, which is not directly referable solely to your

holding.

**10.3.** You may request us to pass your funds securities to a trading venue, central counterparty, settlement or clearing institution or an intermediate broker or agent, which is located outside the Republic of Cyprus. In such circumstances the legal and regulatory regime applying to such persons will be different from that of the Republic of Cyprus and, in the event of insolvency of such persons, your funds and securities may be treated in a different manner from that which would apply if the money was held by such persons in the Republic of Cyprus. Specifically, due to the nature of the law or market practice of an overseas jurisdiction we may be prevented from holding your securities and funds in a separate account identified on books and records of a third party as containing money and assets belonging only to clients of ours and not our proprietary securities or funds. It may also be not possible under national law for your securities or funds held with a third party to be separately identifiable from the proprietary securities or funds of that third party. In such cases, your funds and securities may be not segregated from ours or those of a third party, and, in the event of its or our default, or in case of its or our insolvency, may be used to satisfy our obligations or claims towards the relevant third party or the obligation or claims of a third party to another person and, accordingly, you may not receive your funds or securities or recover the full value of the securities. Also, you may be unable to exercise voting rights or take other action in relation to your securities readily or at all.

## **11. SECURITIES LENDING**

**11.1.** A **securities lending/borrowing transaction** (a "securities loan") means a transaction in which the lender agrees to lend to the borrower securities (known as **loaned securities**) with a simultaneous agreement by the borrower to return to the lender securities equivalent to the originally borrowed securities

(**equivalent securities**), at a certain date or on demand against the payment of the agreed lending fee (normally calculated by applying the annualised lending interest rate to the market value of the loaned securities) by the borrower to the lender. Collateral requirements normally apply to this type of transactions. Risks associated with contracts requiring the provision of collateral are described under "Financial Collateral Arrangements".

**11.2.** Where you lend securities, the full ownership of the loaned securities will be transferred to the borrower. You will therefore, be exposed to the risk of failure by the borrower to comply with the terms of the transaction in part or at all. Such failure can result, inter alia, in the inability to return to you equivalent securities and the possible loss of corporate benefits accruing thereon. You will also become exposed to the risk of failure by the borrower to pay to you the agreed lending fee.

**11.3.** Your rights, including any proprietary rights that you may have had, in loaned securities will be replaced by an unsecured contractual claim against the borrower for delivery of equivalent securities and in the event of insolvency or default by the borrower your claim against the borrower for delivery of equivalent securities and payment of the lending fee will not be secured and will be subject to the terms of applicable contract and law and, accordingly, you may not receive such equivalent securities or recover the full value of the loaned securities or the lending fee.

(a) As a result of you ceasing to have a proprietary interest in the loaned securities, even if the borrower has agreed to exercise voting and other corporate rights in accordance with your instructions, in the event that the borrower does not hold and is not able to readily obtain equivalent securities, the borrower may not be able to comply with your instructions.

**11.4.** In the event that the borrower is not able to readily obtain equivalent securities to deliver to you at the time required, you may be

unable to fulfil your settlement obligations under a hedging or other transaction you have entered into in relation to those equivalent securities and/or a counterparty or other person may exercise a right to buy-in the relevant securities and/or you may be unable to exercise rights or take other action in relation to those equivalent securities.

(a) In the event that a competent resolution authority exercises its powers under any relevant resolution regime in relation to the other party to a securities loan any rights you may have to take any action against the other party, such as to terminate your agreement, may be subject to a stay by the relevant resolution authority and your claim for delivery of equivalent securities or payment of the lending fee may be reduced (in part or in full) or converted into equity or a transfer of assets or liabilities may result in your claim on the other party, or the other party's claim on you, being transferred to different entities.

**11.5.** Where you receive or are credited with a payment by reference to dividend, coupon or other income payable in relation to any loaned securities, your tax treatment may differ from your tax treatment in respect of the original dividend, coupon or other payment in relation to those loaned securities.

**11.6.** Where you borrow securities and the market value of the loaned securities you have borrowed declines, you may be required to deposit more money or securities at short notice. In the extreme event that the loaned securities decline to zero, you would need to deposit the full initial value of the loaned securities in cash or other assets to cover the loss or immediately return the equivalent securities.

**11.7.** Where you hold any cash or assets with the other party to a securities loan, your securities and cash balances may be subject to the security interests created in favour of the other party. Where you borrow securities and become unable to make any payments or

deliveries, the other party may be entitled to sell your securities to recover funds or to apply cash held by it for you to satisfy your obligations under the securities loan without prior notice to you.

## **12. EMERGING MARKETS**

**12.1.** You should be aware that there may be potential risks posed by volatile political, legal and commercial conditions in emerging markets which may affect the value of or result in the loss of investments.

**12.2.** The absence of developed securities markets as well as potentially underdeveloped banking and telecommunications systems in such countries may give rise to greater custody, settlement, clearing and registration risks. Foreign investment in issuers in emerging markets may be restricted - sometimes such restrictions may not be published and investors may not be readily made aware of them. In such circumstances, there may be restrictions on repatriation of capital or an investment may have to be scaled down to comply with local foreign ownership restrictions.

**12.3.** Emerging markets may lack a fully developed legal system and the body of commercial law and practice normally expected to be found in countries with more sophisticated financial markets. Local laws affecting foreign investments continue to evolve in substance and interpretation, however this development might not always be positive for foreign investments as interpretation of the law sometimes might be arbitrary. Laws and regulations affecting foreign investments might change quickly and unpredictably. Additional legal uncertainties arise from various local, regional and national laws and there is a lack of judicial or legislative guidance or interpretation on unclear or conflicting laws. Additionally, government authorities have a broad discretion on the implementation of the laws. Effectively, this means that there is no guarantee that investors can operate in a stable legal or

regulatory environment. Having to comply with conflicting and/or arbitrary laws might have an adverse effect on the investments.

**12.4.** In addition, the rights of minority shareholders investing in equities have been given less protection than in more developed countries. There may also be no centralised system for recognising documents of title. Inability to prove or defend their title could adversely affect the investors. The rules in emerging markets with respect to regulating ownership, control and corporate governance may be seen as inadequate and may confer less protection for investors as compared to more developed economies and financial instrument may or may not be held in omnibus accounts and/or through intermediaries. There may be no or few restrictions for the company's management to terminate existing business operations, sell assets or in other ways materially impact the value of a company. Anti-dilution protection is also limited. Redress for violation of shareholder rights may not be as readily available as in developed countries.

**12.5.** The quality and reliability of official data published by governments and their agencies in emerging markets might not be equivalent to that available in developed markets.

**12.6.** Trading in securities on emerging markets may be halted or be subject to trading suspensions caused by extraordinary market volatility or other market disruption or force majeure events. There can be no assurance that the requirements of the market, necessary to maintain the listing of any securities will continue to be met or will remain unchanged.

## **13. STABILISATION**

**13.1.** You may enter transactions in newly issued securities in respect of which a stabilisation manager has been engaged and the price of which may have been influenced by measures taken to stabilise it.

**13.2.** Stabilisation enables the market price of a security to be maintained artificially during the

period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of the new issue but also the price of other securities relating to it. Some regulators allow stabilisation in order to help counter the fact that when a new issue comes onto the market for the first time, the price can sometimes drop for a time before buyers are found. As long as the stabilisation manager follows applicable regulations, it is entitled to buy back the securities that were previously sold to investors or allotted to institutions, which have decided not to keep them. The effect of this may be to keep the price at a higher level than it would otherwise be during the period of stabilization.

**13.3.** The fact that a new issue is or a related security is being stabilised should not be taken as any indication of the level of interest from investors, nor of the price at which they are prepared to buy the securities.

#### **14. EXTENDED HOURS OF TRADING**

**14.1.** Increased trading opportunity means increased ability to react to news and earnings reports that occur during pre- and post-market sessions. However, the extended hours trading involves material trading risks.

**14.2.** Risk of timing of order entry. All orders entered and posted during extended-hours trading sessions must be limit orders. You must indicate the price at which you would like your order to be executed. By entering the price, you agree not to buy for more or sell for less than the price you entered, although your order may be executed at a better price. Your order will be executed if it matches an order from another investor or market professional to sell or purchase on the other side of the transaction. In addition, there may be orders entered ahead of your order by investors willing to buy or sell at the same price. Orders entered earlier at the same price level will have a higher priority. This means that if the market is at your requested price level, an order entered prior to your order will be executed first. This may prevent your

order from being executed in whole or in part.

**14.3.** Risk of execution pricing. For extended-hours trading sessions, quotations will reflect the bid and ask currently available through the utilized quotation service. The quotation service may not reflect all available bids and offers posted by other venues, and may reflect bids and offers that may not be accessible through us or respective trading partners. This quotation montage applies for both pre- and post-market sessions. Not all systems are linked; therefore you may pay more or less for your security purchases or receive more or less for your security sales through an exchange or market than you would for a similar transaction on a different exchange or market.

**14.4.** Risk of lower liquidity. Liquidity refers to the ability of market participants to buy and sell securities. Generally, the more orders that are available in a market, the greater the liquidity. Liquidity is important because with greater liquidity, it is easier for investors to buy or sell securities, and as a result, investors are more likely to pay or receive a competitive price for securities purchased or sold. There may be lower liquidity in extended hours trading as compared to regular market hours. As a result, your order may only be partially executed, or not at all.

**14.5.** Risk of higher volatility. Volatility refers to the changes in price that securities undergo when trading. Generally, the higher the volatility of a security, the greater its price swings. There may be greater volatility in extended hours trading than in regular market hours. As a result, your order may only be partially executed or not at all.

**14.6.** Risk of changing prices. The prices of securities traded in extended hours trading may not reflect the prices either at the end of regular market hours, or upon the opening the next morning. As a result, you may receive a price in extended hours trading which is inferior to that you would obtain during regular market hours.

**14.7.** Risk of unlinked markets. Depending on

the extended hours trading system or the time of day, the prices displayed on a particular extended hours trading system may not reflect the prices in other concurrently operating extended hours trading systems dealing in the same securities. Accordingly, you may receive a price in one extended hours trading system inferior to one you would obtain in another extended hours trading system.

**14.8. Risk of news announcements.** Normally, issuers make news announcements that may affect the price of their securities after regular market hours. Similarly, important financial information is frequently announced outside of regular market hours. In extended hours trading, these announcements may occur during trading, and if combined with lower liquidity and higher volatility, may cause an exaggerated and unsustainable effect on the price of a security.

**14.9. Risk of wider spreads.** The spread refers to the difference in price between what you can buy a security for and what you can sell it for. Lower liquidity and higher volatility in extended hours trading may result in wider than normal spreads for a particular security.

**14.10. Risk of duplicate orders.** There is a risk of duplicate orders if you place an order for the same security in both an extended-hours session and the regular trading session, even if that order is a day order.

**14.11. Delayed confirmation.** Orders executed during regular trading hours may not be confirmed until after the post-market extended trading session has already begun. Similarly, orders executed in the pre-market session may not be confirmed until after regular trading has begun.

**14.12. No support.** We do not have customer service 24 hours. This means that we will not answer client calls during much of the pre- and post-market trading sessions. This greatly increases the risk of loss if you make an error or if there is a system issue because no one will attend to your call until the beginning of

customer service hours. You are solely responsible for any loss that occurs in its account for any reason during the non-core session.

## **15. DAY TRADING STRATEGY**

**15.1.** A day trading strategy means an overall trading strategy characterised by the regular transmission of intra-day orders to effect both purchase and sale transactions in the same security or securities.

**15.2.** Day trading can be extremely risky. Day trading is not generally appropriate for someone of limited resources and limited investment or trading experience and low risk tolerance. You should be prepared to lose all of the funds that you use for day trading. In particular, you should not fund day trading activities with retirement savings, student loans, second mortgages, emergency funds, funds set aside for purposes such as education or home ownership, or funds required to meet your leaving expenses.

**15.3.** Day trading requires knowledge of securities markets. Day trading requires in-depth knowledge of the securities markets and trading techniques and strategies. In attempting to profit from day trading, you must compete with professional, licenced traders, employed by investment firms. You should have appropriate experience before engaging in day trading.

**15.4.** Day trading requires knowledge of an investment firm's operations. You should be familiar with an investment firm's business practices, including the operation of the firm's order execution systems and procedures. Under certain market conditions, you may find it difficult or impossible to liquidate a position quickly at a reasonable price. This can occur, for example, when a market for security suddenly drops or if trading is halted due to recent news events or unusual trading activity. The more volatile a security is the greater the likelihood that problems may be encountered in executing

a transaction. In addition to normal market risks, you may experience losses due to systems failures.

**15.5.** Day trading will generate substantial commissions even if the per trade cost is low. Day trading involves aggressive trading and generally you will pay commission on each trade. The total daily commissions that you pay on your trades will add to your losses or significantly reduce your earnings.

**15.6.** Day trading on margin or short selling may result in losses beyond your initial investment. When you day trade with funds borrowed from us or someone else you can lose more than the funds you originally placed at risk. A decline in the value of the securities that are purchased may require you to provide additional funds to the lender to avoid the forced sale of those securities or other securities in your account. Short selling as part of your day trading strategy may also lead to extraordinary losses because you may have to purchase a security at a very high price in order to cover a short position.

**15.7.** Potential authorisation or registration requirements. Persons pursuing day trading strategy may be required to obtain a licence or register as a trader, dealer or a market maker with an appropriate regulator, a trading venue or organised market.