INFORMATION ON RISKS ASSOCIATED WITH FINANCIAL INVESTMENTS

INTRODUCTION

You will normally expect to achieve an as high as possible return on your portfolio. But you should also consider that virtually any type of financial instrument implies some degree of risk of loss in value.

Before making any investment decision, it is therefore extremely important that you understand the various risk factors associated with financial instruments.
This document, which we ask you to read prior to giving any investment instruction to the Bank, thus provides you with:

- some general risk/returns principles for building/managing an investment portfolio
- a brief description of the various types of investment risks
- a brief description of the main products offered by the Bank, and the related risks
- as a conclusion, a summarised risk-scale for the various products.

Due to the rapid evolution of the financial markets and the specific features that may be attached to any instrument, this document should in no case be taken as a comprehensive study of all possible risks linked to all possible instruments. You should thus always consider on a case-by-case basis the specific risk features of any contemplated investment. Your account manager will be most pleased to:

- assist you in building an investment portfolio that fully matches your long-term needs and expectations
- provide you with more details on the risks and expected returns of any individual instrument.

SOME GENERAL RISK/RETURN CONSIDERTAIONS

First of all, you should establish your personal risk/return trade-off. This will namely depend on:

- Your personal financial situation, including your ability and willingness to bear losses, albeit for a temporary period
- Your investment objectives. Basically, what interests you, more: regular income, or capital growth?
- Your degree of knowledge of the financial markets
- Your personal appetite for or aversion to risk taking
- The expected time horizon of your investments

The “investor profile” questionnaire you were asked to fill when opening your account should help both you and us in determining your risk/return expectations. These expectations may of course change over time; your account manager will be pleased to help you adjusting your portfolio as required.

A higher expected return implies a higher degree of risk.

Fixed income products generally imply a lower degree of risk and a lower expected return, while equities imply both a higher degree of risk and expected return.

In the longer term, equities statistically tend to provide higher average returns than fixed-income products. But over shorter periods, returns on equities are much more volatile, i.e. they may be subject to (very) large fluctuations; negative returns are actually not unusual.

Negative returns on bonds are more infrequent – but may still happen in a period of rising interest rates.

The past performance of a specific instrument may never be taken as a guarantee of its future performance.

Virtually any individual instrument might lose its entire value, depending on the particular situation
(e.g. insolvency) of the issuer.

You should mitigate the risk associated with your portfolio, by ensuring at all times a sufficient diversification of your holdings between different types of assets, but also over different geographical areas/ economic sectors. The main reason for this is that the price variations of different investments are not strictly correlated, e.g. bonds will not necessary lose value if the equity markets fall. Therefore, by buying different products instead of just one, you can decrease the level of risk required to obtain the same given expected return.
Investment funds may be a convenient instrument to achieve diversification for portfolios limited in size.

Some transactions (namely investment loans, foreign exchange /derivatives trading) may be of a highly speculative nature, and entail quite significant losses. Due to the leverage element they may incorporate, using these products might actually result in you losing more than your equity, and finding yourself in debt to the Bank.

MAIN TYPES OF INVESTMENT RISKS

Below is a description of major risk factors that may affect the value of your financial investments

Currency / Foreign exchange risk
The risk of adverse fluctuation in currency rates. All instruments denominated in currencies other than your base currency will be subject to that risk.

Interest rate risk
The risk linked to the change in market interest rates. This will mostly affect bonds. If market interest rates rise, the price of a bond wills usually decline, and vice-versa. The longer the maturity of the bond, the bigger the impact will be. Note that this risk will not be relevant if you intend to hold a bond until maturity, where it will normally be redeemed at par.

Company / Issuer / Credit risk
The risk linked to the individual situation of a company/issuer, namely its (financial) performance and its solvency. The credit worthiness of many companies/issuers can be tracked through the credit ratings provided by external agencies such as Moody's or Standard and Poor's. This risk will affect both bonds and equities. Bond issuers with high credit rating (e.g. Western governments) will generally offer lower returns in exchange for no or low risk. Prices of equities will obviously depend on the individual situation of their respective issuers.

Market risk
The risk following from changes in general market expectations and in economic trends, and from the interaction between macroeconomic factors such as interest rates, inflation, employment rates, energy prices.
This is a general risk that will mostly affect the value of equities.

Business risk
The risk of doing business in a specific sector, and of cyclical ups and downs in that sector. Some sectors (e.g. IT, energy) are more subject to cycles than others (e.g. consumer goods, pharmaceuticals). This risk will mostly affect the value of shares issued by companies active in the considered sector.

Liquidity risk
The risk of not being able to promptly sell a security if/when desired. As an example, government bonds are typically quite liquid, while equities from smaller companies may involve a substantial liquidity risk. Additionally, disinvesting from certain types of securities prior to their predefined fixed investment term may imply substantial financial losses and/or penalties.

Legal risk and country/geographical risk
The risk linked to changes in the legal, fiscal, political or social environment of a country. Western countries will generally be considered more stable than emerging markets. This risk is relevant for both bonds and equities.

Leverage risk

Some contracts and products (e.g. investment loans, foreign exchange/derivatives) are designed in such a way to achieve a leverage effect on the amount invested. This means, the value of the invested amount will change much more rapidly and significantly than if a “plain” investment had been made in the underlying asset. This gives potential for increased profits, but also for significant losses; losses exceeding the initially invested capital can actually not be excluded.

On a similar note, transactions in certain types of instruments may imply financial commitments and other obligations -including contingent liabilities- additional to the initial cost of acquiring the instruments. Note that the leverage effect and associated risk level may vary for each individual instrument, and depend on the circumstances in which it is used.

MAIN TYPES OF INSTRUMENTS AND RELATED RISKS

Below is a brief overview of the main products offered by the Bank, and the major risk elements they involve.

Current account

Money deposited on a sight account with us, which will be freely available at any time. Remuneration will be limited, and according to account balance and prevailing interest rates for the relevant currency. This product is basically risk-free, except for foreign exchange risk (as applicable).

Time deposits

Depositing money with us for a period agreed in advance, typically one week to one year. Remuneration will normally be higher than for a current account, but will also depend on the amount deposited and prevailing market interest rates. This product is also basically risk-free, except for foreign exchange risk (as applicable).

Bonds

By buying a bond you actually lend money to the issuer, who undertakes to:

- Remunerate you at preset conditions, generally through paying a periodical interest coupon.
- Reimburse you at the predetermined maturity date.

Bonds are principally subject to interest rate and issuer/credit risk, and additionally to foreign exchange, liquidity and country risk. Overall risk-profile: risk-free to medium/high, depending on the characteristics of the issue.

Equities / Shares

By buying a share you actually buy part of the ownership of a company. You may be remunerated for this through periodical payments of dividends, and/or appreciation in the market price of your shares. Shares are basically subject to all the types of risks described above. Overall risk-profile: medium/high to high, depending on the characteristics of the issuing company.

Investment funds

When you buy a share of a fund, the fund will use that money to invest in various instruments (cash, bonds, shares…), as specified by the fund’s prospectus. The individual assets invested in will be chosen by the appointed fund manager. Risks and returns linked to funds are substantially those of the instruments invested in. Through diversification of the assets held, funds however normally allow the achievement of a lower risk level than investments in individual bonds/shares. Overall risk-profile: risk-free to high, depending on the investment policy of the fund. See a specific paragraph on “hedge” funds further down this section.

Forward foreign exchange

This is the purchase or sale of a specific amount in one currency against another currency, at a rate and with a settlement date agreed in advance. Such transactions may generally be entered into:

- For trading purposes: That is, to speculate on the future fluctuations between the respective currencies
- For hedging purposes: That is, to decrease the risk associated with your portfolio. Typically: if you hold assets denominated in currencies other than your base currency, forward selling those foreign currencies against your base currency will provide an effective cover for those assets against currency risk. Note however a hedging forward deal may overnight become a trading item, for example if you sell the covered asset.

The Bank will be pleased to assist you further in the use of forward foreign exchange transactions. Please note however that you will always remain responsible for all deals made, namely for hedging deals that turn into trading transactions. Main risks associated with trading foreign exchange: currency risk, leverage risk. Overall risk profile for trading foreign exchange: high

Note: You may incur quite significant losses from trading foreign exchange transactions; you may actually lose more than your equity, and find yourself in debt to the Bank. Therefore, entering into this type of transaction will always require you to obtain a credit line beforehand from the Bank, and to sign a pledge agreement in its favour. You will also be required to maintain at any time enough security deposited/ pledged with the Bank, to ensure your ability to cover any losses that may arise from these transactions. Failure on your part to comply with the Bank's security requirements would enable the Bank to realise the pledged assets, in order to protect its interest and yours.

Derivatives

There exists a wide variety of derivative instruments, each with their specific features. Derivatives may however generally be defined as contracts, the price of which is linked to the evolution of an underlying instrument (interest rates, equity prices, currency rates, commodity rates, indices..). Derivative instruments generally include a significant leverage element, as they will in many cases require only modest amounts - if any - to be initially be paid by the Investor (or to the Investor, in case of opening sale) but at the same time imply a significant degree of exposure to the underlying instrument.

The variation in market prices of derivatives may therefore be very rapid; in some cases these may have to be settled in cash through daily "margin calls" debit or credit movements to the Customer's current account.

As outlined above for forward foreign exchange, transactions in derivatives may be entered into for trading or for hedging purpose. And here also, hedging derivatives may become trading items, for example if you sell the covered asset. Note finally that some products offered by the Bank do or may make use of derivatives, for example structured bonds and funds. See the descriptions of these products for more details Main risks associated with derivatives: all the risks associated with the underlying instruments; plus leverage risk Overall risk profile for – trading – derivatives : from high to very high, depending on characteristics of the traded instrument, the underlying instrument(s), and the type of transaction (i.e. purchase/sale).

Note: You may incur quite significant losses from – trading transactions in derivatives. Hence you should consider trading in such instruments only if you are an experienced investor, you fully understand the risks involved, and you are both willing and able to bear those. Some of such transactions (e.g. uncovered sales) may actually imply that you lose more than your whole equity, and find yourself in debt to the Bank. Therefore entering into this type of transaction will always require you to obtain a credit line beforehand from the Bank, and to sign a pledge agreement in its favour. You will also be required to maintain at any time enough security deposited/pledged with the Bank to ensure your ability to cover any losses that may arise from these transactions. Failure on your part to comply with the Bank's security requirement would enable the Bank to realise the pledged assets in order to protect its interest and yours.

Structured products, e.g. structured bonds

There exists a vast variety of structured products, each with their specific features. Such products may however be seen as a combination of several of the financial instrument types described in this document.

Structured bonds (e.g. equity-linked bonds, reverse convertible bonds) are typical examples. These are bonds coupled with some derivative instruments, packed in such a way that the return on the bond (periodic coupon and/or redemption price) will depend on the evolution of the value of the derivative instruments.
Risks and returns are those linked to the various instruments used to build the product concerned. Overall risk rating: from low to high, depending on the derivative instruments incorporated in the product.

"Hedge" funds

To many investors hedge funds sound very risky. But the variety of hedge funds is huge: some are actually very stable, while others indeed entail a significant level of risk. Hedge funds may typically use a very broad range of instruments and investment strategies (including taking short positions, using derivatives, leveraging investments…); also, their price variations may be largely uncorrelated to the price developments on the "traditional" equity and bond markets. This may allow the achievement of positive returns and/or effectively stabilise portfolios in periods of declining stock/ bond markets; but obviously this could as well lead to losses, also in times of rising financial markets. Overall risk rating: from low to high, depending on the investment objectives, techniques and products used by the fund.

Investment loans

Entering into investment loans is a way of gearing your investments, and the related potential return. Indeed, instead of "merely" investing your capital in selected assets, you borrow money from the Bank -possibly in a currency with a low nominal interest rate- to finance the purchase of more assets with high return potential. The leverage factor will depend on the types of assets invested in, but may be up to 5 times your capital. Main risks associated with investment loans: leverage risk, the risks associated with the financed assets, and potentially currency risk. Overall risk profile: medium to high, depending on the chosen leverage factor, the type of assets financed by the loan, and the respective currencies of the loans and of the financed assets.

Note: You may incur quite significant losses from investment loans; you may actually loose more than your equity and find yourself in debt to the Bank.
Therefore, entering into this type of transactions will
require you to prior obtain a credit line beforehand from the Bank, and to sign a pledge agreement in its favour. You will also be required to maintain at any time enough security deposited/pledged with the Bank, to ensure your ability to cover any losses that may arise from these transactions. Failure on your
part to comply with the Bank's security requirements would enable the Bank to realise the pledged assets, in order to protect its interest and yours.

CONCLUSION

The basic categories of financial assets may be categorized as follows, by increasing level of expected return and risk:

- Current accounts and time deposits
- Bonds
- Shares

Risks connected with investment funds, structured products and derivatives will depend on the underlying instruments they include (or are linked to).But, apart from this "generic" categorisation, each instrument may have some specific features so that its risk profile may vary significantly.
The particular circumstances, under which an instrument is used, possibly in combination with other products, may also be of prime importance.

Finally, remember that there is no standard optimal investment portfolio that would be valid for all types investors: it will always depend on your personal circumstances, expectations and degree of knowledge of the markets.
Your account manager will be pleased to help you design a tailor-made portfolio that best fits your risk profile and long term wishes.