

DESCRIPTION OF FINANCIAL INSTRUMENTS AND RELATED RISKS

Each investment in financial instruments carries a risk which depends on the nature of each investment. This document describes the nature and the risks of financial instruments. It is noted that it does not disclose all the associated risks or other important aspects of the financial instruments described below and it should not be considered as investment advice or recommendation for the provision of any service or investment in any of the financial instruments mentioned below.

The investor should not carry out any transaction in these or in any other financial instruments unless he is fully aware of their nature, the risks involved and his exposure in these risks. In case where he is uncertain as to the meaning of any of the warnings described below, he must seek an independent legal and/or financial advice before taking any investment decision.

The investor should be aware of the following:

- a) the value of any investment in financial instruments may fluctuate downwards or upwards and the investment may even become worthless,
- b) past performance of a financial instrument is not an indication of its future performance.

1. Description of Financial Risks Systemic Risk

Systemic risk is the risk arising from interdependencies among markets, which results in problems possibly appearing in one of them spreading to other markets. It involves the entire financial sector and not any one individual market and appears in the form of chain reactions.

Market Risk

Market risk is the risk of a change in the value of an investment due to changes in general market factors such as interest rates, share prices, share indices, exchange rates, commodity prices and commodity indices. For example, an increase in interest rates, increases the cost of borrowing for companies, decreasing their net profits and discouraging new borrowing for investments. An increase in commodity prices (such as oil) might lead to an increase in product prices and in costs for companies which use the raw materials, transferring the cost to the consumer, increasing inflation and negatively affecting economic development. In case of a negative fluctuation in prices, investors in financial instruments run the risk of losing part or all of their invested capital.

Credit Risk

Credit risk is the risk of failure of counterparty to meet its obligations, for example failure to pay dividends or interest. This risk can be assessed through credit assessment of the counterparties and can be mitigated with credit insurance, portfolio diversification and/or the use of credit derivatives.

Settlement Risk

Settlement risk is the risk that the settlement of transactions in financial instruments is not completed, especially if the counterparty does not pay or deliver titles in time to fulfill its obligation to clear the transaction. This risk is limited where the investment involves financial instruments traded in regulated markets because of the regulation of such markets. This risk increases in case the investment involves financial instruments traded outside regulated

markets or where their settlement takes place in different time zones or different clearing systems.

Liquidity Risk

Liquidity risk is the risk of inability to liquidate an investment in time and at a reasonable price resulting in a loss to the investor due to the substantially lower price in which he may liquidate the investment due to lack of buyers. The liquidity of a financial instrument is directly affected by the supply and demand for that financial instrument and indirectly by other factors, including disruptions in the market or in the securities settlement process and infrastructure issues.

Foreign Exchange Risk

Foreign Exchange risk is the risk of an investment's value being affected by changes in exchange rates and affects investments in financial instruments which are traded in a different currency or in foreign exchange markets.

Custody Risk

Custody risk is the risk of loss of the financial instruments held by a custodian on behalf of the investor, due to the custodian's actions or omissions or lack of creditworthiness.

Operational Risk

Operational risk, such as breakdowns or malfunctioning of essential systems and controls, including IT systems, can have an adverse impact on all financial instruments. Business risk, especially the risk that the business is run incompetently, may also adversely affect shareholders or other investors in such a business. Personnel and organisational changes may severely affect such risks and, in general, operational risk may not be apparent from outside the organisation.

Regulatory and Legal Risk

This risk refers to the regulatory and legal framework in the country of the investment. Any change in the legal, tax or regulatory framework may have an impact on an investment. Such risk is unpredictable and depends on numerous political, economic and other factors. For this reason, this risk is greater in emerging markets where there is generally less government supervision and regulation of business and industry practices, stock exchanges and over-the-counter markets.

2. Description of Financial Instruments and Related Risks

Whilst an overview of the available financial instruments provided by the Company is set out below, these financial instruments may take on different or unique characteristics and risk profiles depending on the specific details of each transaction and prevailing market conditions, especially when these financial instruments are combined.

Shares

Shares represent a portion in the share capital of a company. The extent of the investor's ownership in a company depends on the number of shares held in comparison to the issued number of shares. Depending on the progress and financial results of the company, shareholders may receive dividend from the company's profits and benefit from a possible increase in the market value of the share of the said company.

Shareholders are exposed to all major risks mentioned in Part 1, and in particular to market risk. Shares may be traded in stock exchanges and their market value may decrease or increase according to market conditions. With regards to shares traded outside a stock

exchange or shares of smaller capitalization companies, there is an additional risk of losing money when such shares are bought or sold due to their low liquidity. Company shares listed in emerging markets are more difficult to be bought and sold than company shares listed in more developed markets and such companies might not be as highly regulated. It is noted that in case of the company's dissolution, the investor may lose the entire value of his investment.

Depository Receipts

Depository Receipts (ADRs, GDRs etc.) are negotiable certificates, typically issued by a bank, which represent a specific number of shares in a company. They are traded on a local or foreign stock exchange with regards to the issuer of the receipt. The receipts may facilitate investment in the underlying 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. Receipts representing underlying shares in foreign markets (in particular in emerging markets) also involve risks associated with the capital markets in such markets.

Warrants

A Warrant offers the right to its holder to acquire a specific number of shares from the issuer of the underlying securities at a predetermined price (exercise price). The Warrant is invariably limited in time, with the consequence that if the investor does not exercise or sell the Warrant within the pre-determined timescale, the Warrant expires with no value. If the Warrant is exercised, the holder is required to pay to the issuer the exercise price. Exercise of the Warrant will give its holder all the rights and risks of ownership of the underlying security. Warrants provide leverage, the extent of which depends on the Warrant's exercise price relative to the price of the underlying security. Therefore, a relatively small fluctuation in the price of the underlying security may lead to a disproportionately larger fluctuation, favourable or unfavourable, to the price of the Warrant. The price of Warrants can therefore be very volatile. Before the purchase of a Warrant, the investor must be aware that there is a risk of losing the whole amount of his investment as well as any commissions and costs incurred. Warrants are subject to all of the major risks mentioned in Part 1.

Rights

A Right offers the right to its holder to purchase a specific number of new shares from the issuer of the underlying securities at a predetermined price (usually lower than the current market price). Rights are issued only for a small time period, after which they lapse. If the Right is exercised, its holder is required to pay to the issuer the exercise price. The exercise of the Right will give its holder all the rights and risks of ownership of the underlying security.

Rights provide leverage, the extent of which depends on the Right's exercise price relative to the price of the underlying security. Therefore, a relatively small fluctuation in the price of the underlying security may lead to a disproportionately larger fluctuation, favourable or unfavourable, to the price of the Right. The price of Rights can therefore be very volatile. Rights are subject to all of the major risks mentioned in Part 1.

Bonds

A Bond is a loan security, by which the issuer undertakes the obligation against the holder to repay the capital at its maturity and the interest (coupon) at the periods specified in the terms of issue. Bonds can be issued either by governments (government bonds) or companies (corporate bonds). In this sense, Bonds represent a form of government or corporate borrowing.

The credit risk of governments, financial organisations, corporations and generally of any Bond issuer may be rated by Credit Rating Agencies. The result of these ratings constitutes a valuable guide for investors in Bonds. Bond issues of lower credit ratings tend to offer higher coupons to compensate the investors for the higher risk they assume. Some Bonds trade on recognised stock exchanges but many trade outside regulated markets (OTC). Liquidity may differ between various types of Bonds.

Other than credit risk where the issuer of the Bond may not be financially solvent to pay to the investors interest or even the principal of the Bond and/or where the value of the Bond may decrease following a downgrade of the credit rating of the issuer, there is foreign exchange risk and liquidity risk (as Part 1 above), interest rate risk as well as prepayment risk.

Interest rate risk is the risk where increases in interest rates may cause significant decrease in the market value of a fixed-rate Bond (price risk) and where decreases in interest rates may affect the reinvestment of the coupon payments of a fixed-rate Bond (reinvestment risk). When interest rates increase, a Bond issued previously carrying lower fixed rate may decrease in value. As a result, the longer the maturity (duration) of the Bond, the higher its sensitivity to changes in interest rates. When interest rates decrease, the coupon payments received from fixed-rate Bonds are reinvested at lower interest rates while coupon payments received by investors from floating-rate Bonds decrease.

Prepayment risk is the risk of change of the expected return of the Bond in the event that the issuer has the right pursuant to the terms of issue to redeem it earlier in case of decrease in the interest rates.

Callable Bonds

A Callable Bond offers the option to the issuer to redeem the Bond before its maturity date. Redemption may be mandatory for the issuer based on the fulfilment of some preconditions included in the initial terms of issue or at the issuer's option and all or part of the issued Bond may be redeemed before its maturity date. Investors, whose Bonds are called, are paid a specified call price. Any (positive) difference between a Bond's call price and nominal value is the call premium. Call provisions expose investors to additional risks and are therefore issued with higher yields than comparable Bonds with no such provisions.

Convertible Bonds

A Convertible Bond is a corporate Bond that gives its holder the option to convert it in shares of the issuer company at specified time periods and at a specified conversion price. A Convertible Bond has the features of a straight Bond with an attached Warrant and hence exposes the investor to the risks of both financial instruments.

Treasury Bills

Treasury Bills are zero coupon Bonds that are issued with a discount to their nominal (par) value. Treasury Bills may have maturities of one month, three months (thirteen weeks), six months or twelve months (fifty two weeks). They are mainly subject to interest rate risk.

Collective Investment Schemes

Generally, Collective Investment Schemes involve an arrangement that enables a number of investors to 'pool' their assets and have these professionally managed by an independent fund manager. This arrangement may take the form of a company, partnership or trust. Investments normally include bonds and shares of listed companies but depending on the type of the scheme, may include broader investments such as derivatives, real estate or any other financial instrument. The valuation of such a Scheme is generally performed by the fund

manager or the investment consultant of the Scheme, the custodian or by an independent valuation agency (as the case may be).

Collective Investment Schemes may invest in markets of high volatility and/or low liquidity and it is possible that there are increased exit or entry costs from or to the Scheme. The ability to liquidate such a Scheme may be limited, depending on the terms of operation of the Scheme and the long time period of notice required for redemption during which the value of each unit may exhibit high volatility and possibly decrease. It is possible that there is no secondary market for such Schemes and hence such an investment may be liquidated only through redemption.

Hedge Funds

Hedge Funds are a type of investment funds, which use specialised investment strategies (such as short selling, use of margin / leverage and use of derivatives) with the aim to maximise returns and control the risk in case of market downturn.

Hedge funds are considered a riskier investment than traditional funds and are suitable for more experienced investors, since they are not regulated and lack transparency. They usually invest in risky or illiquid securities and although they target absolute returns, if they fail to manage risk, they may realise significant losses. Beyond the liquidity risk, Hedge Funds have the ability to leverage which means that a relative small fluctuation in the price of the underlying security may lead to a disproportionately larger fluctuation, favourable or unfavourable, to the value of the investment.

Exchange Traded Funds - ETFs

Exchange Traded Funds are a form of Collective Investment Schemes, which track an index of a country, sector, or a specific geographical region. ETFs trade in organised and non-organised secondary markets just like shares but with the following major differences: ETFs represent an investment in a basket of financial instruments and their purchase/sale bears lower transaction costs. Investments in ETFs exposes the investor to the same risks as the underlying securities (shares, bonds, etc.) but to a significantly lower degree due to the diversification of investments

Medium Term Notes

Medium Term Notes are a form of debt capital. They are usually issued within the framework of a financing programme, registered to a supervisory authority, which allows the issuers (subject to the parameters of the programme as registered) to change the nominal return or the term in response to the issuer's needs or the market demand. Medium Term Notes usually offer coupon payments and have various maturities. There is a secondary market for Medium Term Notes which is supported by the underwriters of the issue. Given that Medium Term Notes entail credit risk, they are rated just like corporate bonds. They are also subject to interest rate risk and all the other major risks mentioned in Part 1.

Money Markets

a) Certificates of Deposit (CDs)

A Certificate of Deposit (CD) is a money market instrument, which has a fixed term (usually under a year) at the end of which interest is paid on the deposit, by the bank or other credit organisation which issues the CD. Most CDs pay a fixed interest rate but there are also floating rate CDs. In case the investor wishes to withdraw his funds earlier than the maturity date, he is obliged to pay a fee. Most CDs are traded and the investor may sell a CD rather than pay a

fee to withdraw the funds. Returns depend primarily on a CD's term, the prevailing interest rates of the underlying currency and the credit rating of the issuer.

b) Commercial Paper

Commercial paper is unsecured short term promissory notes issued for a small period of up to a year, mainly by companies (although there are also government issuers) which obligate the issuer to pay a fixed capital at maturity. In order to secure a return to the investor, Commercial Paper is issued at a discount from the capital to be paid at maturity. For issuers, Commercial Paper constitutes a quick and cheap source of raising capital whilst for investors, it constitutes a liquid investment of low risk. Other than the main risks described in Part 1, Commercial Paper also entails credit risk and is rated by the major rating agencies.

c) Repurchase Agreements and Reverse Repurchase Agreements (Repos / Reverse Repos)

A Repurchase Agreement is an agreement between two contracting parties whereby one party sells to the other a security at a specified price, with a commitment to buy the security back at a later date for another specified price. Essentially, a Repurchase Agreement is a temporary exchange of capital and securities. The capital and the securities exchanged through a Repurchase Agreement are designed to act as collateral one for the other. This means that if the seller does not fulfil his obligation to repay the capital, the buyer may sell the securities to cover at least part of his capital. Respectively, if the buyer does not fulfil his obligation to return the securities, the seller may substitute at least some of the securities by using the capital to buy new securities. The purchase and sale price is determined directly by the two contracting parties and is generally lower than loan rates. If the security pays dividend, coupon or has partial redemption during the agreement, this is returned to the initial owner. A Reverse Repurchase Agreement is the opposite of a Repurchase Agreement. Other than the major risks described in Part 1, Repurchase and Reverse Repurchase Agreements entail also credit risk.

Structured Products

'Structured Products' refer to a broad range of synthetic products created to meet specific investment needs that cannot be met from the standardised financial instruments available in the market. Structured Products often use derivatives as underlying assets (e.g. options and swaps) and can be used as an alternative in the asset allocation process to reduce the risk exposure of a portfolio or to take advantage of current market trends. Structured Products are usually formed as contracts and can be issued as notes or structured deposits. Their value is derived from the market value of the underlying asset (shares, currencies, interest rates, commodities, financial indices and/or any combination of these) and its volatility, the time up to maturity as well as the interest rates.

A sub-category of Structured Products is Capital Guaranteed Products where the initial capital is guaranteed by a banking organisation and is returned at the product's maturity. One other category of Structured Products is the Structured Liability Products which combine loans or other liabilities with some derivative products and offer the potential of reducing the cost of borrowing of the investor and hedging the risk arising from fluctuations of interest rates on the basis that some predefined conditions are being satisfied. If these conditions are not met then the borrower simply does not enjoy any benefits whereas in some types of products the borrower may be asked to pay a higher interest rate than the rate of the original loan.

Transactions in Structured Products (excluding the Capital Guaranteed Products mentioned above) involve increased risk of losing the whole or part of the original invested capital. Investors in Structured Products are exposed to all the major risks mentioned in Part 1.

Currency Forwards

A Currency Forward is a commitment to buy or sell a specific amount of foreign currency at a later date or within a specific time period and at an exchange rate (the forward rate) determined at the time the transaction is concluded. The delivery or receipt of the currency takes place on the agreed upon value date. A currency forward transaction cannot be cancelled. It may, however, be closed out at any time by the repurchase or sale of the foreign currency amount on the value date originally agreed upon. Currency Forwards are over the counter (OTC) instruments. Currency Forwards entail market risk, interest rate risk, foreign exchange and credit risk.

Options

Options are derivative instruments giving the holder / buyer (long position) the right, but not the obligation, to buy (Call Option) or sell (Put Option) an underlying asset from / to another contracting party at a predetermined price (exercise price) either during a specific period or at a specific date. The seller of the Option (short position/writer) has the obligation to buy or sell the underlying asset from / to a contracting party. Options trade on exchanges or Over The Counter (OTC). Their value is derived from the market value of the underlying asset (shares, currencies, interest rates, commodities, financial indices and/or any combination of these) and its volatility, the time up to maturity as well as the interest rates.

Buying a Call or a Put Option (long call or long put) is a less risky position than selling an Option (short call/short put) since if the price of the underlying asset decreases in the case of a Call Option or increases in the case of a Put Option the investor can leave the Option to expire without exercising it. Maximum loss is limited to the premium paid plus any commission or other transaction costs.

The seller of the Option (short call/short put) has the obligation to sell/buy the underlying asset to/from the contracting party at the agreed exercise price if the price of the underlying asset exceeds/is less than the exercise price. If the seller of the Call Option does not hold the pre-agreed underlying asset (naked call/uncovered call), his possible loss is unlimited whereas his maximum profit is equal to the option premium received. If the seller of the Call Option holds the underlying asset which he agreed to sell (covered call), the risk of loss is less. On the contrary, credit risk is borne always by the buyer of the Option since he will exercise the Option only if it is in his best interest and thus it all depends on the credibility of the seller to fulfill his obligations.

Swaps

A Swap is a cash-settled derivative agreement between two contracting parties to 'swap' two streams of cash flows during one or more time periods in the future based on pre-agreed terms.

The most common type of Swaps is Interest Rate Swap Agreements. In interest rate swaps, one contracting party agrees to pay to the other contracting party a fixed interest rate on a pre-agreed principal amount for a specific time period. In exchange, he receives a floating interest rate on the pre-agreed principal for the specific time period. The principal in such type of Swaps is usually not exchanged. In every settlement date, payments of the contracting parties are netted so that there is only one payment made from the contracting party with the greater liability. Interest Rate Swap Agreements are usually used to convert a floating rate loan into a fixed rate one or/and vice versa.

Another common type of Swaps is Currency Swap Agreements where the contracting parties exchange a specific amount in different currencies for a specific time period. In Currency Swap Agreements, there is an exchange of principal both at the inception and termination of the agreement, while the payments between the two contracting parties at the settlement dates are not netted since they are in different currencies. In such Agreements, there is no foreign exchange risk since the exchange rate is determined at the inception of the agreement.

Another type of Swaps is Commodity Swap Agreements where the contracting parties agree to exchange payments on a pre-agreed quantity of a commodity (crude oil or refined products, precious metals, agricultural commodities), with the one party paying a fixed price for the good and the other party paying a floating price. The underlying commodity product is not exchanged and the parties proceed to pay the difference between the two prices (fixed and floating). Depending on whether the investor wishes to be hedged against a possible rise or fall in the prices of the related commodity, he takes the appropriate "position" in the swap agreement (that is to pay a fixed or floating price). Even though no initial premium is required, in case the market "moves" against the investor then he may be required to pay the amount corresponding to the difference owed.

Swaps include both credit and interest rate risk. Currency Swaps entail greater credit risk than Interest Rate Swaps due to the exchange of principal both at the inception and termination of the agreement as well as the payments from both parties at every settlement date.

Synthetic Swaps

A Synthetic Swap is a currency swap that combines a spot and a forward transaction. It is an agreement between the bank and the investor to exchange two amounts of respective currencies at the spot rate and to reverse the transaction on a future date according to a pre-agreed exchange rate. The investor gains a return derived from the difference between the spot exchange rate and the forward exchange rate. It has a relatively low risk, including only interest-rate risk and credit risk.

Futures

Futures are derivative products which oblige the buyer to buy an underlying asset (or the seller to sell an underlying asset) from / to another contracting party, at a specified future date and at a specified price (future price). Usually Futures provide that at the expiry date, there is no actual delivery of the underlying asset and payment of total consideration but just payment of the difference between the spot and the future price of the underlying asset at the termination of the contract. The theoretical prices of Futures are determined based on the spot price of the underlying asset, the interest rates and the time up to maturity. A premium or discount is added or subtracted respectively depending on the market expectations of the future price. The underlying asset may be a share, an index, a commodity product or a currency. Futures are traded in a stock exchange and are regulated by the regulatory authorities.

Futures entail significant risk. The ability to leverage which usually offer, means that a relative small fluctuation in the price of the underlying asset may lead to a disproportionately larger fluctuation, favourable or unfavourable, to the value of the Future.

Futures involve daily cash settlement (mark to market), where at the end of each day, investors whose positions (purchase or sale) recorded losses, are called to pay in their margin account a required amount, to maintain their position. If investors do not pay the required amount within the required time then their position may be cleared with a loss and they will be liable for the deficit in their account.

Contracts for Differences

A Contract for Differences is an agreement between two contracting parties, a buyer and a seller, with which the seller undertakes the obligation to pay to the buyer the (positive) difference between the current market price of an asset and its price at the time of the agreement (if the difference is negative, then the buyer is obliged to pay this to the seller). This asset could be a share, a bond, a future, an option etc. For example, where applicable to shares, such an agreement allows the investor to speculate on share movement with no actual holding of these shares.

A Contract for Differences entails a high degree of risk because of the leverage involved. A relatively small fluctuation in the price of the underlying asset may lead to a proportionately larger fluctuation in the value of the investment.

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