HELLENIC BANK

RISK DISCLOSURE STATEMENT

This document provides an overview of the different Financial Instruments that the Bank, can offer you as well as the risks associated with such instruments. This notice does not cover all the risks and other significant aspects of relevant Financial Instruments, nor does this notice impose any obligation on the Bank to deal or accept instructions relating to those instruments in any instance.

Clients are advised not to deal in a Financial Instrument unless they understand its nature and the extent of their exposure to risk. Clients should also be satisfied that the instrument is suitable for them in light of their particular circumstances and financial position.

Different financial instruments involve different levels of exposure, and in deciding whether to trade in such instruments or not, Clients should be aware of the information provided below.

1. Bonds

A Bond is an instrument of indebtedness of the bond issuer to the holder. The main characteristics of the bonds are the following:
• **Issuer:** Can be a corporate, financial institution, government and government related entities, supranational organization.
• **Maturity:** The bonds have a medium to long term maturity, defined as more than one year, with the exception of perpetual bonds which have no maturity date.
• **Interest rates / payments:** The interest rates applied can be either fixed or floating rates and are payable at an agreed fixed interval. They are calculated based on the nominal amounts of the bonds. In certain cases, the payments are linked to other indices e.g. Inflation – Indexed bonds, Equity-Linked bonds etc.
• **Principal Amount:** Most commonly the principal amount of a bond is repaid to the holders on the maturity date.
• **Trading / Secondary Market:** Most bonds are negotiable instruments and can be traded at the secondary market at market prices which may be at a premium or discount to the nominal amount.
• **Ownership:** A bondholder has a credit interest in the issuer and not an equity stake and has priority in an event of default over the equity holders.

Type of bonds: the most popular types of bonds are the following:

• **Covered / Secured bond**: This bond is backed by collateral which may be sold by the bondholders to satisfy a claim if the bond's issuer fails to pay interest and principal when they are due
• **Senior Unsecured bond:** This bond is not backed by collateral. In the event of default, the bondholder would make claims against the issuer's general wealth.
• **Senior Non-Preferred (Junior) bond:** This bond is not backed by collateral. In the event of liquidation, the bondholder would take losses after the subordinated bonds and before the senior unsecured (preferred) bonds
• **Subordinated bond:** This bond has lower priority than other bonds during liquidation. There are various categories of subordinated bonds depending on the capital ranking of the issuer carrying different liquidation ranking

Optionality: Occasionally a bond may contain an embedded option, for example:

• **Callable bond:** A callable bond gives the issuer the right to repay the bond before the maturity date on the call dates
• **Puttable bond:** A puttable bond gives the bondholder the right to force the issuer to repay the bond before the maturity date on the put dates
• **Sinking bond:** A sinking bond requires the issuer to periodically repay the bondholders or maintain separately a certain portion of the issue before the final maturity
• **Convertible bond:** The bondholder of a convertible bond according to predefined rules can exchange a bond to a number of shares and/or other type of debt instruments of the issuer. In certain cases, the issuer also has similar rights.

The risks associated with the above type of security include but may not be limited to the following risks:
• **Interest Rate Risk:** is the risk faced by bond holders because when interest rates rise, bond prices decline.
• **Yield Curve Risk:** is the risk that the value of a bond portfolio might deteriorate because of a change in the shape of the yield curve. Yield curves may shift in a parallel or in a non-parallel way.
• **Call Risk:** is the risk that the bond will be paid off before its maturity date. Investors face call risk whereby the issuer retires all or part of

the issue before maturity date. This is usually done when interest rates have fallen substantially since the issue date

- **Prepayments Risk:** is the risk that the bond will be paid off before its maturity date. Issuers face prepayment risk whereby the investor demand all or part of the issue before maturity date. This is usually done when interest rates have risen substantially since the issue date
- **Reinvestment Risk:** The risk resulting from the fact that proceeds received from the issuer may not be able to be reinvested in such a way that they earn the same rate of return as the invested funds that generated them.
- **Credit Risk:**
    - **Default / Insolvency Risk:** is the risk that the issuer will fail to make the contractual interest or principal payments when they are due.
    - **Credit Spread Risk:** is the risk that the bond's credit spread widens causing the bond's price to decline.
    - **Downgrade Risk:** is the risk that the price of the bond might fall because the credit rating of the bond and/or the issuer/ and/or the country has deteriorated.
- **Liquidity Risk:** is the risk that an investor will not be able to sell the bond quickly without giving up a large price concession. The bid/ask spread is the best measure of liquidity risk. Liquidity risk is mostly a concern for investors who do not expect to hold the security to maturity.
- **Exchange Rate Risk:** is the risk that the exchange rate between the currency that the bond is denominated, and the owner's home currency might change.
- **Inflation Risk:** is the risk that the purchasing power of the cash flows received from a bond (interest and principal) will decline over time because of inflation.
- **Event Risk:** is the risk that some unusual event could impair the ability of an issuer to make interest and principal payments.
- **Sovereign Risk:** is the risk that the issuer is unwilling or unable to pay interest and principal as and when they fall due.
- **Headline Risk:** is the risk that stories in the media will hurt the issuer's business and its ability to pay interest and principal as and when they fall due.
- **Sanction Risk:** is the risk that the issuer is unable to pay interest and principal as and when they fall due because of the imposition of Sanctions by governments and other international organizations
- **Capital Controls Risk:** is the risk that the issuer is unable to pay interest and principal as and when they fall due because of the introduction of capital controls in the country where the bond is issued, or the issuer is generating its income.
- **Regulatory Risk:** is the risk that the issuer is unable to pay interest and principal as and when they fall due because of changes in local or international regulations
- **Legal Risk:** is the risk that the issuer is unable to pay interest and principal as and when they fall due because of changes in legal framework
- **Structural changes Risk:** is the risk of changes in the structure, type, outstanding amounts etc of the bond following the application of the Collective Agreement Clauses according to the bond's prospectuses.
- **Bail in Risk:** is the risk of rescuing an issuer on the brink of failure by making its creditors take a loss on their holdings
- **Volatility Risk:** is the risk that changes in the expected volatility of interest rates and/or credit spreads affect the value of any embedded options in a bond pricing structure, thereby affecting the value of the bond.
- **Insolvency Risk:** the risk that the issuer becomes temporarily or permanently insolvent, resulting in its incapacity to repay the interest or redeem the bond. The solvency of an issuer may change according to changes specific to the issuing company, the issuer's economic sector and/or the countries concerned, as well as political developments with economic consequences. The deterioration of the issuer's solvency will influence the price of the securities that it issues.

2. Money Market Instruments

A Money Market Instrument is an instrument of indebtedness of the issuer to the holder with very short maturity, defined as one year or less. The issuers can vary from corporates, financial institutions, governments and government related entities. These instruments are either interest bearing or discounted and most commonly the principal amounts are repaid at maturity.

Indicative types of Money Market Instruments are the following:

- Short-term Certificates of Deposits
- Bankers acceptances
- Treasury bills
- Commercial paper
- Municipal notes
- Federal funds
- Repurchase agreements (repos)

Predominantly the Money Market instruments are senior unsecured instruments. For issuers/borrowers these instruments are a quick and cheap source of funds, often an alternative to bank loans and is typically issued as a part of a programme of revolving issuance. A programme is an arrangement for repeated borrowing at priced fixed at the time of each new borrowing. Revolving issuance means that, as each issue matures, it can be replaced by a new issue to maintain the total outstanding amount of borrowing.

Money Market Instruments are relatively safer than most other debt instruments due to their short maturities and the high liquidity of their market, which reduce the long-term uncertainty in relation to market volatility and the issuer's creditworthiness. Nevertheless, the risks associated with the Money Market Instruments are similar to the bonds instruments as indicated above.

3. Equity Shares

A share is an instrument representing a shareholder's rights in a company. One share represents a fraction of a corporation's share capital. Dividend payments and an increase in the value of the security are both possible, although not guaranteed. The shareholder has financial and ownership rights which are determined by law and the issuing company's articles of association.

The major risks that influence the performance of equity shares are the following:

- **Company Risk:** A shareholder does not lend funds to the company but becomes a co-owner of the corporation. Therefore, a shareholder participates in the development as well as in the profits and losses, which make it difficult to calculate the return on such an investment. In an extreme case where the company goes bankrupt / into liquidation– in other words an inability to pay its debts, the total sums invested may fall to zero. It is noted that in such scenarios, the equity stakeholders are the first to take the losses before any other creditors.

- **Dilution Risk:** Dilution is a reduction in the ownership percentage of a company caused by the issuance of new shares. If an existing shareholder does not participate in the new share issue and depending on the issue price his/her investment could decrease in value.

- **Price Risk:** share prices may fluctuate heavily causing risks of loss. Prices may fluctuate in a non-systematic pattern in the short, medium and long term, without investors being able to determine the duration of those cycles.

- **Dividend Risk:** the dividends mainly depend on the issuing company's earnings and on its dividend policy. In cases of low profits or losses, dividend payments may be reduced or not paid at all.

Additionally, there are various factors that influence the performance of a company and consequently the investor's return including but not limited to changes in interest rates, exchange rates, political & economic conditions and fundamentals, default ratios of the debtors, succession planning, evolution of legislation and tax regimes, evolution of market conditions and consumers habits, new technologies and products, operational inefficiencies, internal and external frauds etc.

4. Depositary Receipts

Depositary Receipts, which can include American Depositary Receipts (ADRs), Global Depositary Receipts (GDRs), Euro Depositary Receipts (EDRs) and New York Shares (NYSs), are negotiable certificates that usually represent a foreign company's publicly traded equity or debt.

These names typically identify the market in which the Depositary Receipts are available: ADRs are publicly available to U.S. investors on a national stock exchange or in the over-the- counter market while GDRs are generally available in one or more markets outside the foreign company's home country.

Depositary Receipts are created when a broker purchases the company's shares on the home stock market and delivers them to the depositary's local custodian bank, which then instructs the depositary bank to issue Depositary Receipts. They may trade freely, just like any other security, either on an exchange or in the over-the-counter market and typically, settle and clear in the same manner as securities local to the market on which they are trading, alleviating certain obstacles and expenses associated with cross-border investing.

There are several factors that determine the value of the Depository Receipts beyond the performance of the underlying company and its' shares as analyzed in section 2 above. Analyzing these foreign companies involves further scrutiny than merely looking at the fundamentals.

Below are some other risks that investors should consider:

- **Political Risk:** The risk of loss when investing in a given country (usually in emerging markets, please refer to "Emerging Markets" below for the associated risks with such markets) caused by changes in a country's political structure or policies, such as tax laws, tariffs, expropriation of assets, or restriction in repatriation of profits.

- **Exchange Rate Risk:** Depository Receipts are usually denominated in major currencies other than the home country of the underlying share. Consequently, the traded price of the Depository Receipt reflects not only the value of the foreign stock but also the exchange rate between the two currencies.

- **Inflation Risk:** is the risk that the purchasing power of the cash flows received from the certificate (dividends or when realized) will decline over time because of inflation.

5. Share Rights

Share rights are securities giving existing shareholders the entitlement to purchase new shares issued by the company at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire. If the rights are exercised the right holder is required to pay to the issuing company the exercise price thus receive all the rights and risks of ownership of the underlying asset.

An investor should be careful when buying discounted shares through a right issue and at least he/she should be informed about the ex-rights share price as well as the purpose of the additional funding.

Rights often involve high degree of leverage, so that a small movement in the price of the underlying security results in disproportionate large movements that can either be favorable or unfavorable to the price of the right. The prices of rights therefore can be very volatile.

6. Exchange Traded Funds

Exchange Traded Funds, or ETFs, are index-based investment products that allow investors to buy or sell shares of entire portfolios of stock in a single security. Moreover, an ETF is a type of Investment Firm whose investment objective is to achieve the same return as a particular market and is similar to an index fund in that it will primarily invest in the securities of companies that are included in a selected market index.

One of the risks of ETFs is that unlike Mutual Funds, they do not necessarily trade at the net asset values of their underlying holdings.

7. Funds

A fund is an investment vehicle into which investors can make an investment by purchasing a unit, share or interest ("unit") in the fund. The fund is usually managed by a third party which invests the fund's cash and assets. The units represent the investor's interest in the fund and the value of the units purchased is often determined by the value of the underlying investments made by the fund (although where the units in the fund are listed or traded on a market, the units may trade or be sold at a discount to net asset value).

There are many different types of funds available including mutual funds, hedge funds, private equity funds and unit trusts.

Depending on the legal structure of the fund, units in the fund may be listed on a stock exchange and the fund may be either open-ended (being generally a fund that confers on investors a right to redeem their interests in the fund) or closed-end.

Some fund structures are more exposed to risk than other due to, amongst other things, the markets they invest in, the nature of their assets and the extent of their leverage.

Clients should carefully read any prospectus, offering memorandum and other related information in advance as dealing in any fund may involve risks, including but not limited to the following:

• **Transferability and withdrawal:** units in funds may not be readily redeemable or transferable or there may not be a market for such units. In such cases, an investor may have to hold his interest until such time as the fund is wound up or a secondary market develops for those units which may result in the investor holding his interest for a substantial period of time. If the fund is an open-ended fund, restrictions may apply to the redemption of the units that may result in an investor being unable to liquidate his investment in the fund at the time of his choosing. There may also be fees payable on redemption of units.

• **Regulation:** some funds may not be regulated in the jurisdiction of their establishment or elsewhere, meaning that certain investor protections or restrictions on activity applicable in a given jurisdiction to a regulated fund may not apply to such funds.

• **Leverage:** some funds may borrow funds under credit facilities in order to satisfy redemption requests, pay certain organizational expenses and finance the acquisition of investments. As such, leverage exposes the fund to capital risk and interest costs that may reduce the value of an investor's investment therein.

• **Rights of participation:** investors in funds generally have very limited rights of participation in respect of their units and the absolute power to make all decisions is usually delegated to the investment manager of the fund.

• **Strategy:** some funds specialize in particular asset classes or geographical sectors, meaning that risk may as such be concentrated. Some funds choose strategies which the market would regard as risky. The investment strategy of a fund may be such that the fund faces strong competition for the purchase of assets from other investors, thereby reducing its investment opportunities.

• **Valuations:** it may be difficult to determine the net asset value of a fund which has invested in illiquid underlying assets and therefore it may be difficult to value the underlying units of the fund.

• **Underlying assets:** the underlying assets of a fund can be diverse and cover both long and short positions and a full range of assets including derivatives. A fund may be exposed to market risks and risks associated with particular trading activities which may result in losses for the fund or periods of underperformance. The risks associated with a direct investment by an investor in the underlying assets are also relevant in determining the risks associated with an investment by the fund in the underlying asset.

• **Management of the fund:** the operation and performance of the fund will depend upon the performance of the fund's investment manager. Generally, a fund will rely on the investment manager to make investment decisions consistent with the fund's investment objectives and the investment manager in turn, will be dependent upon its key personnel to carry out their roles with due care and skill. The investment manager and its affiliates (if any) may be in a position to provide services to other clients, which conflict directly or indirectly with the activities of the fund and could prejudice investment opportunities available to, and investment returns achievable by the fund. If the agreement between the fund and the investment manager is terminated, the fund may not be able to find a suitable replacement for the investment manager, potentially leading to losses for the fund and periods of fund underperformance.

Clients should clearly understand the allowable investments of a fund before carefully consider whether an investment in such fund is suitable for them taking into account their financial circumstances and the specific risks involved and be prepared to sustain a total loss of the capital they have invested.

8. Derivative Instruments

Derivatives are financial instruments whose characteristics and value derive from the characteristics and value of an underlying asset (typically a commodity, bond, equity, currency) or an index. There are many different types of derivatives, such as forwards, futures, options and swaps, which are considered below. The objective of investors in derivatives varies and can sometimes be used to manage the risk associated with the underlying security and/or portfolio, to protect against fluctuations in value or, to profit from periods of inactivity or decline. These instruments often involve a high degree of gearing or leverage, so that a relatively small movement in the price of the underlying investment results in a much larger movement, unfavorable or favourable, in the price of the instrument. The price of these instruments can therefore be volatile.

Whilst derivative instruments can be utilised for the management of investment risk, some investments are unsuitable for many investors. Different instruments involve different levels of exposure to risk, and in deciding whether to trade in such instruments you should be aware that derivatives transactions involve risks, including but not limited to the following:

• **Market risk:** Market risk is the risk of loss arising from adverse changes in the value of a derivative instrument as a result of movements in the market rate of the underlying asset.

• **Credit risk:** Credit risk is the risk that a counterparty may fail to meet its contractual payment obligations through insolvency or default. For derivatives, the amount at risk is not the face value of the transaction but the positive fair value or replacement value of the transaction.

• **Liquidity risk:** Liquidity risk is the risk of losses attributable to a lack of liquidity (i.e. very few market participants) in a particular market. This is usually indicated by wide bid/offer spreads and very few transactions being done in a particular product or market. The risk is that changes in the underlying market price may be infrequent but very large, and that an open position in the market is not able to be effectively hedged.

• **Pricing risk:** For complex derivative transactions, pricing is completed using various assumptions and mathematical models. Pricing risk is the risk that these models do not accurately reflect conditions

• **Operational risk:** Operational risk is a wide-ranging area of risk. It can cover risks such as, but not limited to, the following:
  - transactional details are not accurately input into computer systems;
  - computer systems break down;
  - computer files are lost;
  - experienced staff leave the organisation;
  - documentation relating to a transaction is incorrect; and
  - relying on a third party for the performance of any operational functions which are critical for the provision of continuous and satisfactory service to clients.

9. Forwards

A forward contract represents the obligation to make, or to take, delivery of the underlying asset of the contract at an agreed price on a future date. A forward contract in the Foreign Exchange market locks in the price at which an entity can buy or sell a currency on a future date. It is also known as "outright forward currency transaction", "forward outright" or "FX forward".

In currency forward contracts, the contract holders are obligated to buy or sell the currency at a specified price, at a specified quantity and on a specified future date.

These contracts cannot be transferred, and forward contract transactions cannot be cancelled. It can be closed out however, at any time by the purchase or sale of the foreign currency amount on the value date originally agreed upon.

Currency Forwards include both Market Risk (Interest Rate and Exchange rate Risk) and Credit Risk.

10. Options

Options are financial derivatives which represent a contract sold by one party (option writer / seller) to another party (option holder / buyer). The contract offers the buyer the right, but not the obligation, to buy (call option) or sell (put option) a security or other financial asset at an agreed-upon price (the strike price) during a certain period of time or on a specific date (exercise date).

Options are extremely versatile securities that can be used in many different ways. Traders use options to speculate, which is a relatively risky practice, while hedgers use options to reduce the risk of holding an asset. In terms of speculation, option buyers and writers have conflicting views regarding the outlook on the performance of an underlying security.

Buying Options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any other transaction or commission charges. On the other hand, by Writing Options the risk involved in much greater as you might be liable to maintain your margin account and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, no matter how far the market price has moved from the exercise price.

The primary difference between options and forwards is that options give the holder the right but not the obligation to buy or sell the underlying asset at expiration, while the holder of a forward contract is obligated to fulfill the terms of the contract.

11. Futures

A futures contract is a standardized contract written by a clearing house that operates on an exchange where the contract can be traded.

Futures are financial contracts obligating the buyer to purchase / accept delivery of an asset (or the seller to sell / deliver an asset), such as a physical commodity or a financial instrument, at a predetermined future date, price and place. Futures contracts are standardized contracts detailing the quality and quantity of the underlying asset and are traded on a futures exchange. Some futures contracts may call for physical delivery of the asset, while others are settled in cash. The futures markets are characterized by the ability to use very high leverage relative to stock markets.

Futures can be used either to hedge or to speculate on the price movement of the underlying asset. For example, a producer of corn could use futures to lock in a certain price and reduce risk (hedge). On the other hand, anybody could speculate on the price movement of corn by going long or short using futures.

The primary difference between options and futures is that options give the holder the right and not the obligation to buy or sell the underlying asset at expiration, while the holder of a futures contract is obligated to fulfill the terms of the contract.

As in the case of forwards, the risk associated with futures is the Market Risk but not the Credit Risk as they are traded on an organized and regulated futures exchange. Also, a clearinghouse guarantees the performance of all trades.

12. Swaps

A swap is an exchange of streams of payments over time according to specified terms. The most common type is an interest rate swap (IRS). An IRS is an arrangement whereby two parties, called counterparties, enter into an agreement to exchange periodic interest payments. The amount paid by each counterparty is an agreed-upon periodic interest rate multiplied by the predetermined principal amount, also known as the notional amount. No principal is exchanged between the counterparties to the transaction, only interest is exchanged during the life of the swap. Usually in a fixed-floating swap one counterparty receives / pays the agreed fixed interest rate whereas the other pays / receives the floating interest rate (based on benchmark rates such as Euribor / LIBOR).

Another very common type of a swap is a Currency Swap where the two parties exchange payments denominated in two different currencies for a specified period of time. With currency swaps there is both an exchange of funds at the beginning of the swap and at the end of the swap. It is important to note that there is no exchange rate risk as the rate is set at the beginning of the contract. The difference in the exchange rates of the two legs primarily represents the difference in the interest rates of the two currencies.

13. Warrants

A warrant is a derivative security that gives the holder the right to purchase the underlying asset (usually equity) from the issuer at a specific price within a certain time frame. The consequences of failing to exercise this right within the pre-determined time-scale are that the warrant expires worthless. If the warrant is exercised, the holder is required to pay the exercise price, and will receive all the rights and risks of ownership of the underlying asset.

The main difference between warrants and call options is that warrants are issued and guaranteed by a company, whereas options are exchange instruments and are not issued by the company. Also, the lifetime of a warrant is often measured in years, while the lifetime of a typical option is measured in months.

Dealing in warrants may involve risks, including but not limited to:

- **Gearing:** Warrants often involve high degree of gearing, so that a small movement in the price of the underlying security results in disproportionate large movements that can either be favorable or unfavorable in the price of the warrant. The prices of warrants can be very volatile.
- **Time limitation:** It is essential for anyone who is considering of purchasing warrants to understand that the right to subscribe is invariably limited in time with the consequence that if the investor fails to exercise this right within the predetermined time scale then the investment becomes worthless.

14. Structured products

Structured Products are synthetic investment instruments specially created to meet specific needs that cannot be met from the standardized financial instruments available in the markets. Structured products can be used: as an alternative to a direct investment; as part of the asset allocation process to reduce risk exposure of a portfolio; or to utilize a current market trend; or investor view.

A structured product is generally a pre-packaged investment strategy which is based on derivatives (i.e. options and to a lesser extent, swaps). Structured Products can be issued with a capital protection feature (Capital Guaranteed) which is valid only if the product is held to maturity. They can also be issued with partial capital protection features or with no capital protection at all.

Structured Products can be issued as notes or as bank deposits. Popular categories of structured products include equity, interest rates, hybrid, FX, commodities and credit linked notes.

The risk relating to a structured product is a combination of the issuer / guarantor risk and the risk emanating from the underlying asset / derivative. These risks are analyzed in previous sections.

Structured products have much less liquidity and wider bid/ask spreads compared to other debt instruments and underlying assets, as they are traded Over the Counter (OTC).

It should be noted by institutional investors who mark-to-market their investments that due to embedded options, structured products are notoriously difficult to value. Hellenic Bank endeavors to secure periodic valuations from the product providers in accordance with market practice.

15. Emerging markets

Countries with emerging markets include but are not limited to:

(1) countries that have an emerging stock market in a developing economy as defined by the International Finance Corporation,
(2) countries that have low to middle income economies according to the World Bank, and
(3) countries listed in World Bank publications as developing.

The list of emerging markets countries is subject to continuous change; broadly they include any country other than Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Luxembourg, The Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States of America.

Accounting, corporate governance and financial reporting standards that prevail in certain of these countries are often not equivalent to those in countries with more developed markets. Tax and legal regimes may be subject to uncertainty and to significant and unpredictable changes and repatriation of investments and profits may be restricted by exchange controls.

There may also be less developed regulation of markets, issuers and intermediates. Markets may lack the liquidity of those in developed countries, leading to difficulty in valuing assets. Instability in such markets has previously led to and may continue to lead to investor losses.

Settlement of transactions carried out on such markets may be lengthier and less secure than in developed markets.

There are various types of emerging markets equity and debt Instruments (including sovereign loans and loan participation). In many cases, these Instruments may not be registered with local governments and may be privately placed or not listed on exchanges.

Investing in Emerging markets involves risks, including but not limited to the following:

Event Risk: On occasion, a country or region will suffer an unforeseen catastrophic event (for example, a natural disaster), which causes disturbances in its financial markets, including rapid movements in its currency, that will affect the value of Instruments in, or which relate to, that country. Furthermore, the value of instruments and any income derived there from can be affected by global events, including events (political, economic or otherwise) occurring in a country other than that in which the instruments are issued or traded.

Political Risk: Many emerging markets countries are undergoing, or have undergone in recent years, significant political change which has affected government policy, including the regulation of industry, trade, financial markets and foreign and domestic investment. The relative inexperience with such policies and instability of these political systems leaves them more vulnerable to economic hardship, public unrest or popular dissatisfaction with reform, political or diplomatic developments, social, ethnic, or religious instability or changes in government policies. Such circumstances, in turn, could lead to a reversal of some or all-political reforms, a backlash against foreign investment, and possibly even a turn away from a market - oriented economy.

For investors, the results may include confiscatory taxation, exchange controls, compulsory re-acquisition, nationalisation or expropriation of foreign-owned assets without adequate compensation or the restructuring of particular industry sectors in a way that could adversely affect investments in those sectors. Any perceived, actual or expected disruptions or changes in government policies of a country, by elections or otherwise, can have a major impact on the value of instruments linked to those countries.

Economic Risk: The economies of emerging markets countries are by their nature in early or intermediate stages of economic development, and therefore more vulnerable to rising interest rates and inflation. In fact, in many emerging markets countries, high interest and inflation rates are the norm. Rates of economic growth, corporate profits, domestic and international flows of funds, external and sovereign debt, dependence on international trade, and sensitivity to world commodity prices play key roles in economic development yet vary greatly from country to country.

Businesses and governments in these countries may have a limited history of operating under market conditions. Accordingly, when compared to more developed countries, businesses and governments of emerging markets countries are relatively inexperienced in dealing with market conditions and have a limited capital base from which to borrow funds and develop their operations and economies. In addition, the lack of an economically feasible tax regime in certain countries poses the risk of sudden imposition of arbitrary or excessive taxes, which could adversely affect foreign investors. Furthermore, many emerging markets countries lack a strong infrastructure and banks and other financial institutions may not be well developed or well regulated. All of the above factors, among others, can affect the proper functioning of the economy and have a corresponding adverse effect on the performance of instruments linked to a particular market.

Credit Risk: Emerging markets sovereign and corporate debt tends to be riskier than sovereign and corporate debt in established markets. Issuers and obligors of debt in these countries are more likely to be unable to make timely coupon or principal payments, thereby causing the underlying debt or loan to go into default. The sovereign debt of some countries is currently in technical default and there are no guarantees that such debt will eventually be restructured allowing for a more liquid market in that debt. The measure of a company's or government's ability to repay its debt affects not only the market for that particular debt, but also the market for all instruments related to that company or country.

Additionally, evaluating credit risk for foreign bonds involves greater uncertainty because credit rating agencies throughout the world have different standards, making comparisons across countries difficult. Many debt instruments are simply unrated and may already be in default or considered distressed. There is often less publicity available business and financial information about foreign issuers than those in developed countries. Furthermore, foreign companies are often not subject to uniform accounting, auditing and financial reporting standards. Also, some emerging markets countries may have accounting standards that bear little or no resemblance to or may not even be reconcilable with generally accepted accounting principles of developed markets.

Currency Risk: Many emerging markets instruments are denominated in foreign currencies. The weakening of a country's currency relative to the US Dollar or other benchmark currencies will negatively affect the dollar value of an Instrument denominated in that currency. Currency valuations are linked to a host of economic, social and political factors and can fluctuate greatly, even during intra-day trading. It is important to note that some countries have foreign exchange controls, which may include the suspension of the ability to exchange or transfer currency, or the devaluation of the currency. Hedging can increase or decrease the exposure to any one currency but may not eliminate completely exposure to changing currency values.

Cash Remittance Risk: The banking system in countries with emerging markets is not well developed and considerable delays (beyond the control of any custodian) may occur in the transfer of funds within such countries, the remittance of monies out of countries. The Custodian will use reasonable efforts in collecting dividends, proceeds of sale, redemption monies and other cash sums associated with the Assets on the Customer's behalf, and in remitting such Assets to the Customer. However, significant delays may occur (causing currency exchange loss) and some Assets may not be received by the Custodian.

Market Risk: The emerging equity and debt markets of many emerging markets countries, like their economies, are in the early stages of development. These financial markets generally lack the level of transparency, liquidity, efficiency and regulation found in more developed markets. It is important, therefore, to be familiar with secondary market trading in emerging markets instruments and the terminology and conventions applicable to transactions in these markets.

Price volatility in many of these markets can be extreme. Price discrepancies can be common and market dislocation is not uncommon. Additionally, as news about a country becomes available, the financial markets may react with dramatic upswings and/or downswings in prices during a very short period of time. These markets also might not have regulations governing manipulation and insider trading or other provisions designed to "level the playing field" with respect to the availability of information and the use or misuse thereof in such markets. It may be difficult to employ certain risk management practices for emerging markets Instruments, such as forward currency exchange contracts, stock options, currency options, stock and stock index options, futures contracts and options or futures contracts.

Liquidity/ Gapping Risk: Liquidity of an Instrument is directly affected by the supply and demand of that Instrument. As the supply of potential sellers increases or demand by potential buyers decreases, or both liquidity of the Instrument will decrease, and bid/offer spreads will generally widen. On some Instruments, because of their structure, liquidity is affected by the costs of unwinding an imbedded transaction. Natural disasters and economic, social, and political developments in a country can cause a decrease in the liquidity of investments related to that country, thereby making it difficult to sell promptly at an acceptable price. In addition, the failure, pending failure or financial difficulties of an entity holding significant positions in certain types of instruments may trigger a decrease in the liquidity and value of the same or similar type of Instruments. The sale of Instruments, including illiquid Instruments, could also be subject to legal restrictions in some countries.

Regulatory/ Legal risk: There are particular risks associated with investment in securities market in the countries with emerging markets. These include the lack of a developed and coherent legislative infrastructure, which is, in addition, subject to alterations and innovations at an irregularly high rate. These factors account for the relatively high level of legal uncertainty, compounded further by the absence of judicial precedents involving the interpretation of the recently introduced laws and regulations concerning the rights and duties of market participants. The Customer understands that by providing custodial services for Securities the Custodian makes no representation that such Securities are a suitable investment for the Customer.

In emerging markets countries there is generally less government supervision and regulation of business and industry practices, stock exchanges, over-the-counter markets, brokers, dealers and issuers than in more developed countries. Whatever supervision is in place may be subject to manipulation or control. Many countries have matured legal systems comparable to those of more developed countries, while others do not.

The process of regulatory and legal reform may not proceed at the same pace as market developments, which could result in confusion and uncertainty and, ultimately, increased investment risk. Legislation to safeguard the rights of private ownership may not yet be in place in certain areas, and there may be the risk of conflict among local, regional and national requirements. In certain areas, the laws and regulations governing investments in securities may not exist or may be subject to inconsistent or arbitrary application or interpretation and may be changed with retroactive effect. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. Judges and courts in many countries are generally inexperienced in the areas of business and corporate law.

Companies are exposed to the risk that legislatures will revise established law solely in response to economic or political pressure or popular discontent. There is no guarantee that a foreign investor would obtain a satisfactory remedy in local courts in case of a breach of local laws or regulations or a dispute over ownership of assets. An investor may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in foreign courts.

Trade settlement / Processing and Clearing: Many emerging markets have different clearance and settlements procedures from those in more developed countries. For many emerging markets Instruments, there is no central clearing mechanism for settling trades and no central depositary or Custodian for the safekeeping of securities. The registration, record-keeping and transfer of instruments may be carried out manually, which may cause delays in the recording of ownership. Where applicable, the Custodian will endeavor to settle trades in emerging markets instruments in accordance with the current market practice developed for such transactions. Otherwise, the transaction may be settled in accordance with the practice and procedure (to the extent applicable) of the relevant market. There are times when settlement dates are extended, and during the interim the market value of an Instrument may change. Moreover, certain markets have experienced times when settlements did not keep standardized settlement procedures, settlement risk is more prominent than in more mature markets. In addition, you may be subject to operational risks in the event that you do not have in place appropriate internal systems and controls to monitor the various risks, funding and other requirements to which you may be subject by virtue of your activities with respect to emerging market Instruments.

Under the laws in force in most of the countries with emerging market a transfer of Securities is not perfected until the name of the transferee appears on the books of the Registrar servicing said Securities. Therefore, the value date for shares transferred into the Customer's account will be the registration date. Before registration, the Customer will not be entitled to exercise any rights represented by such transferred Securities.

Due registration of Securities acquired by the Customer may in certain circumstances be conditional on disclosure by the Custodian to the respective Registrar or other appropriate person of the ultimate beneficial owner of the securities.

It may be difficult for the Custodian to reconcile its records of certain Securities held for a Customer with the records of the Registrar(s) servicing such Securities on a reliable and timely basis.

Bondholder/ Shareholder risk: Rules in emerging markets countries regulating the ownership and corporate governance of companies (for example, requiring the disclosure of large ownership positions or governing tender offers by majority shareholders) may not exist or may provide little protection to bondholders and shareholders. Disclosure and reporting requirements in general, from annual and quarterly reports to prospectus content and delivery, may be minimal or non-existent. Antifraud and insider trading law is generally not very developed in many emerging markets countries. There may be no prohibitions or restrictions under local law on the ability of management to terminate existing business operations, sell or dispose of assets, or otherwise materially affect the value of the company without the consent of its shareholders. Anti-dilution protection may also be very limited. There may be no fiduciary duty, or a limited concept of fiduciary duty, on the part of management or the directors to the company or to the shareholders as a whole or minority shareholders. Remedies for violations of shareholders' rights may be difficult to obtain because of the absence of a system of derivative or class action litigation.

In addition to withholding tax, dividends and other income paid in respect of the Assets may be subject to the charges of various parties (including registrars and collecting agents) associated with their remittance. All such charges will be borne by the Customer.

Risks in General: The nature and extent of investment risks described above vary from country to country and Instrument to Instrument. Many of these risks overlap, are correlated or related to one another, or are subsets of more general risks. These investment risks will vary with:

- the type of investment being made;
- the needs and objectives of particular investors;
- the manner in which particular investment is made or a specific Instrument is offered, sold or traded;
- the location or domicile of the issuer;
- the diversification or concentration in a portfolio (e.g. the amount invested in any one currency, security, country or issuer);
- the complexity of the transaction; and
- the use of leverage.

Investments in instruments related to emerging markets countries may be considered speculative, and their prices will be much more volatile than those in the more developed countries of the world. It is each client's responsibility to manage the risks, which arise as a result of investing in emerging markets instruments and the allocation of assets in its portfolio.

The risks set forth herein individually or in the aggregate, as well as other factors, could have a material adverse effect on your investment. This section is not intended to be an exhaustive list of all the risk factors affecting emerging markets instruments. You should seek advice from you own advisers with regard to tax, accounting and other factors to be considered when investing in an emerging markets instrument.

Before making any investment in an emerging markets instrument, you should independently satisfy yourself that you understand and appreciate the significance of the relevant risks, and that such an investment is appropriate and suitable for you or your managed accounts in light of your objectives, experience, financial and operational resources, and other relevant circumstances. You should also ensure that you fully understand the nature of the transaction and contractual relationship into which you are entering and the nature and extent of your exposure to risk of loss, which may significantly exceed the amount of any initial payment by or to you. The Custodian assumes that if you are acting as an investment adviser or fiduciary for a customer, that your customer is aware of the risks and practices described herein, and that prior to each transaction you have determined that such transaction is suitable for your customer. You should understand that when conducting transactions in emerging market instruments, the Custodian is acting solely in the capacity of an arm's length counterparty and not in the capacity of your financial adviser unless otherwise agreed in writing.

While the Custodian may from time to time make a market in an emerging markets instrument, it does not commit to make a market in any Instrument and provides no guarantee that a market in an Instrument will exist at the time an investor seeks to buy or sell such Instrument. The Custodian or a related entity may from time to time have long or short positions in and buy and sell instruments referred to herein. The Bank or a related entity may also from time to time perform investment banking or other services for, or solicit investment banking or other business from, any issuer located in an emerging markets country or any government of an emerging markets country.

16. Complex / Non-Complex Financial Instruments

Non-complex financial instruments are defined in Article 25(4)(a) of Directive 2014/65/EU as follows:

(i) shares admitted to trading on a regulated market or on an equivalent third-country market or on a MTF, where those are shares in companies, and excluding shares in non-UCITS collective investment undertakings and shares that embed a derivative;

(ii) bonds or other forms of securitised debt admitted to trading on a regulated market or on an equivalent third country market or on a MTF, excluding those that embed a derivative or incorporate a structure which makes it difficult for the client to understand the risk involved;

(iii) money-market instruments, excluding those that embed a derivative or incorporate a structure which makes it difficult for the client to understand the risk involved;

(iv) shares or units in UCITS, excluding structured UCITS as referred to in the second subparagraph of Article 36(1) of Regulation (EU) No 583/2010;

(v) structured deposits, excluding those that incorporate a structure which makes it difficult for the client to understand the risk of return or the cost of exiting the product before term.

All other financial instruments shall be considered as complex ***unless they satisfy the following criteria:***

(a) it does not fall within Article 4(1)(44)(c) of, or points (4) to (11) of Section C of Annex I to Directive 2014/65/EU;

Article 4(1)(44)(c)
any other securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, commodities or other indices or measures

Points (4) to (11) of Section C of Annex I
(4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;

(5) Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event;

(6) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a MTF, or an OTF, except for wholesale energy products traded on an OTF that must be physically settled;

(7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of this Section and not being for commercial purposes, which have the characteristics of other derivative financial instruments;

(8) Derivative instruments for the transfer of credit risk;

(9) Financial contracts for differences;

(10) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF;

(11) Emission allowances consisting of any units recognised for compliance with the requirements of Directive 2003/87/EC (Emissions Trading Scheme).

(b) there are frequent opportunities to dispose of, redeem, or otherwise realize that instrument at prices that are publicly available to market participants and that are either market prices or prices made available, or validated, by valuation systems independent of the issuer;

(c) it does not involve any actual or potential liability for the client that exceeds the cost of acquiring the instrument;

(d) it does not incorporate a clause, condition or trigger that could fundamentally alter the nature or risk of the investment or pay out profile, such as investments that incorporate a right to convert the instrument into a different investment;

(e) it does not include any explicit or implicit exit charges that have the effect of making the investment illiquid even though there are technically frequent opportunities to dispose of, redeem or otherwise realise it;

(f) adequately comprehensive information on its characteristics is publicly available and is likely to be readily understood so as to enable the average retail client to make an informed judgment as to whether to enter into a transaction in that instrument.

17. Disclaimer

Under no circumstances should the information included in this part of the document be construed as an investment advice or be used or considered as an offer to sell, or a solicitation of any offer to buy, any Instrument.